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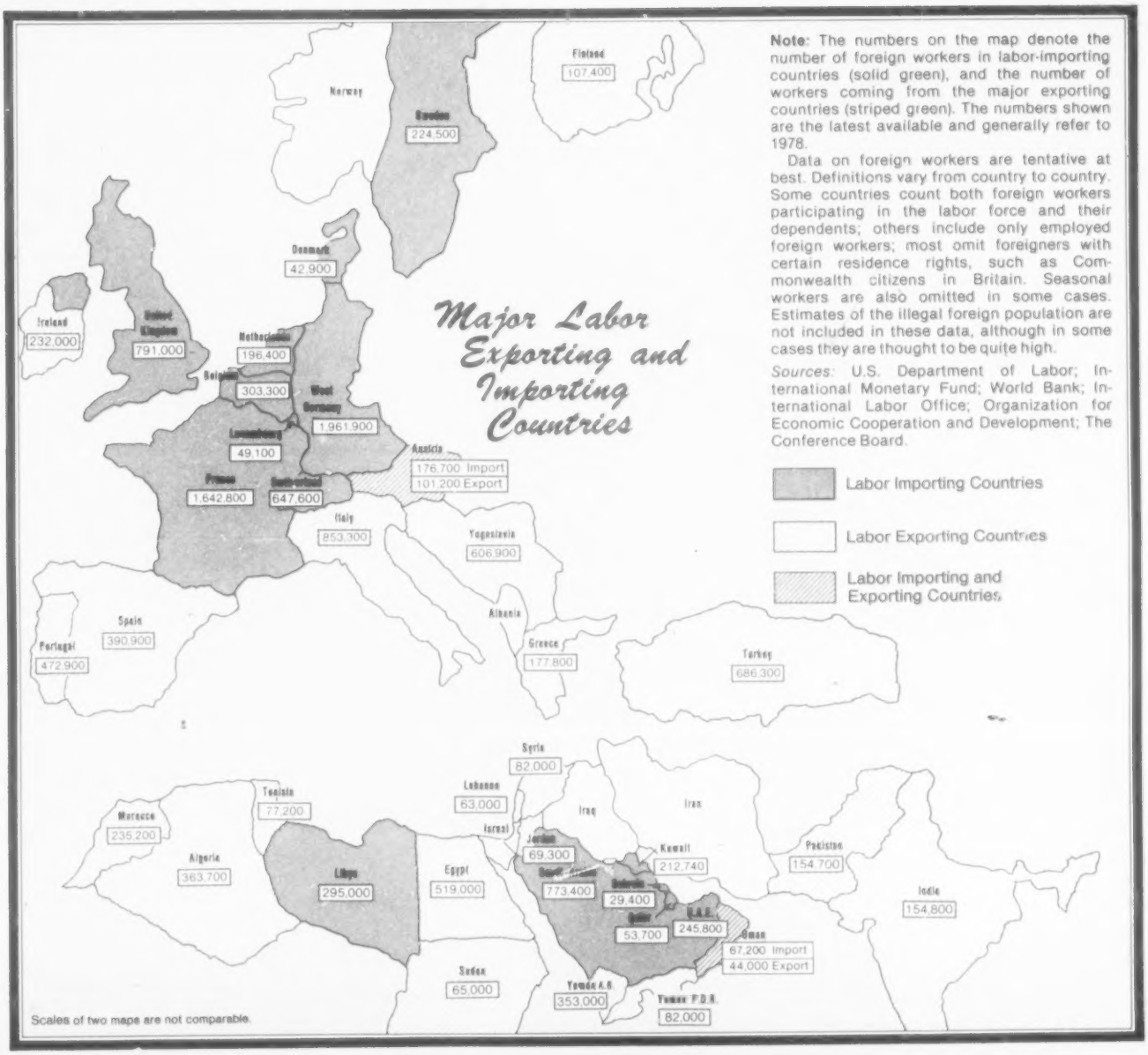
International Labor Migration

Economic Road Maps

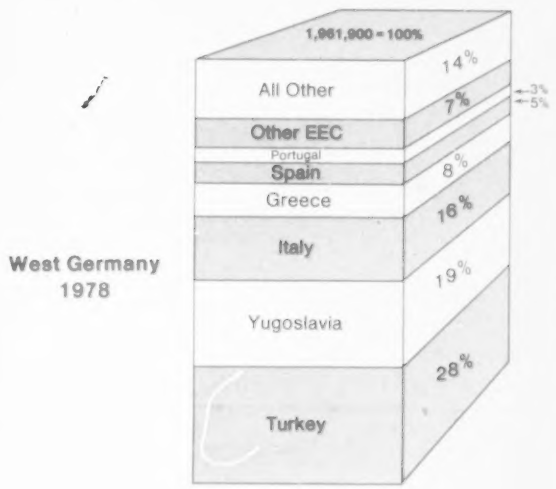
Nos. 1890 - 1891

November, 1980

The rapid redevelopment of Western European economies following the destruction of World War II resulted in one of the most massive international labor migrations in history. Millions of workers—mostly from the underdeveloped countries of Southern Europe and North Africa—flowed into eight northern European countries. The total number of foreign workers admitted to Western Europe for temporary employment since the end of World War II has been estimated at 30 million. More recently, the oil-producing Middle Eastern countries have also witnessed a huge inflow of migrant labor. The phenomenon is also known in the United States, but this country is unable to count its foreign workers since so many of them are "undocumented" and here illegally; the number is estimated at anywhere between 2 and 12 million.

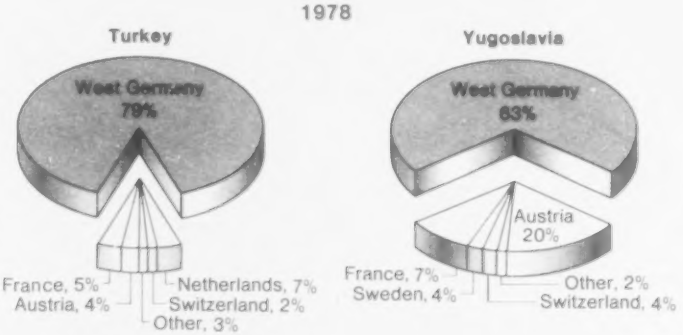


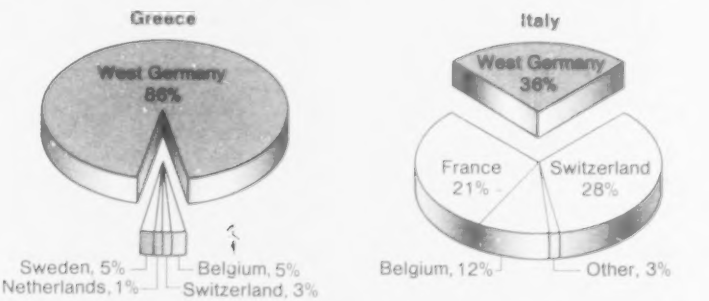
Migrant Workers in Europe

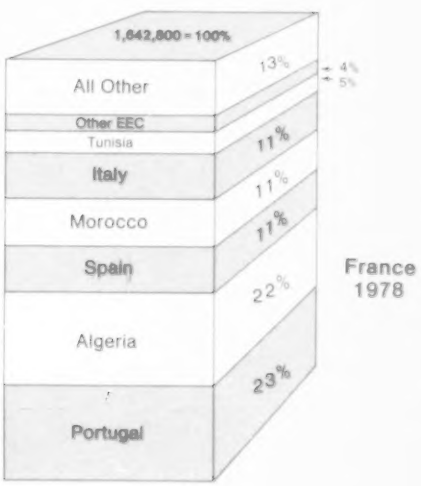


West Germany
1978

1978

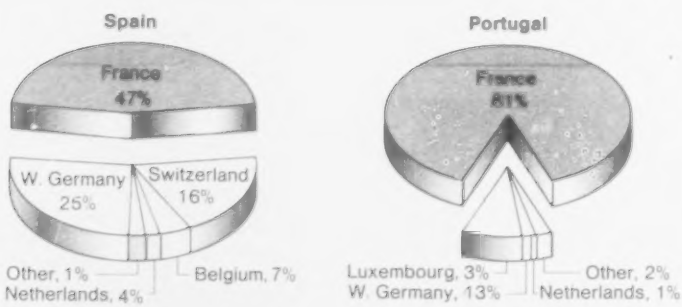


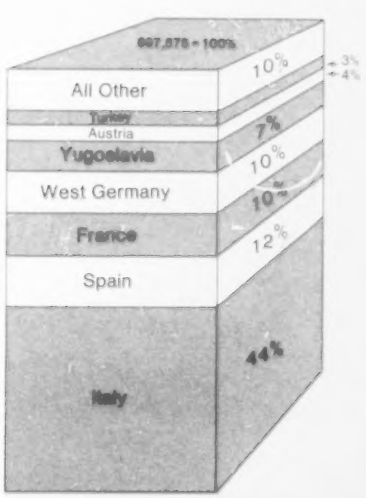




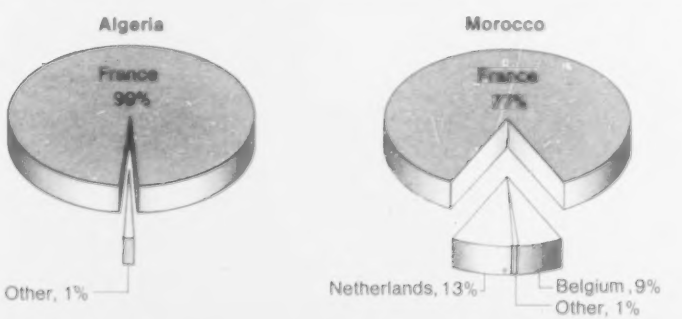
France
1978

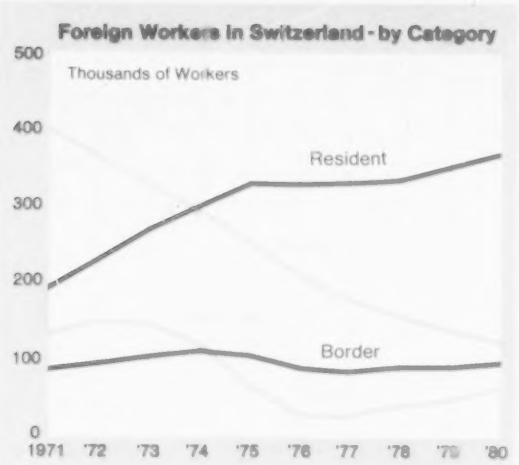
"Guestworker" programs in Western Europe were originally set up to relieve temporary labor shortages by importing workers for a specified time period. As implied by the name, these workers were expected to depart upon the expiration of their contracts, usually after one or two years, as other workers took their places. Their numbers were to be determined by the economic requirements of the host country. The guestworker programs flourished until the early 1970's. By 1973, there were some 6.7 million guestworkers in Europe (excluding those in the United Kingdom). Recruitment then came to a sudden halt, reflecting the onset of the energy crisis and the threat of a recession. An awareness had also emerged in the

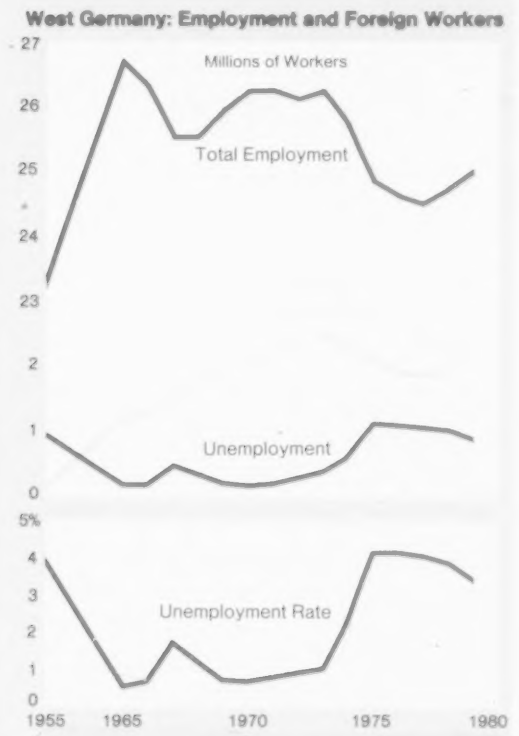


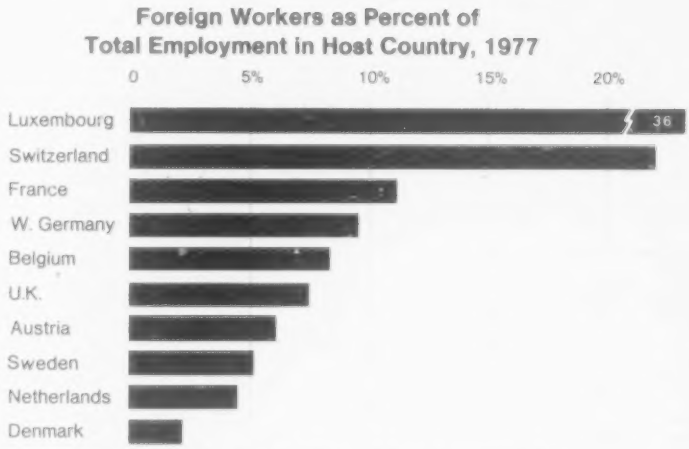


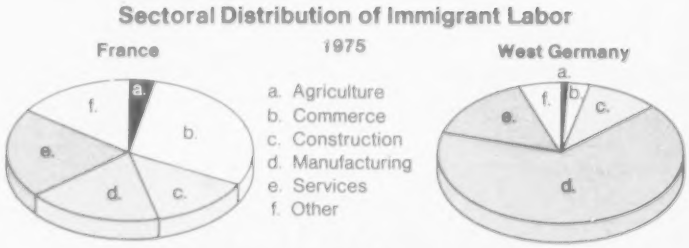
Switzerland
1980

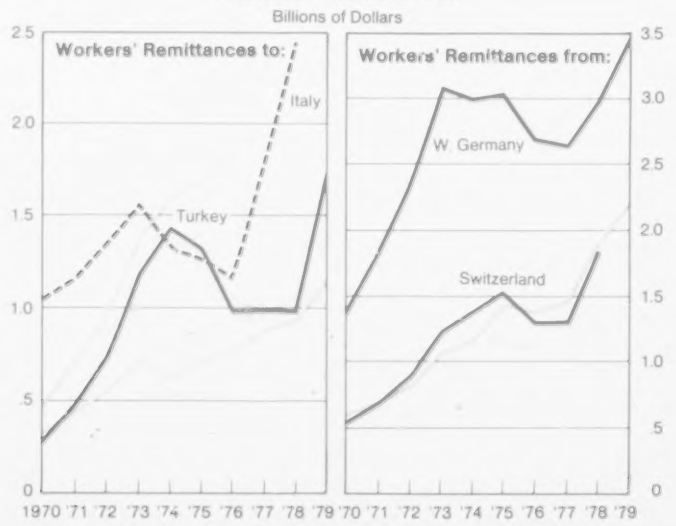








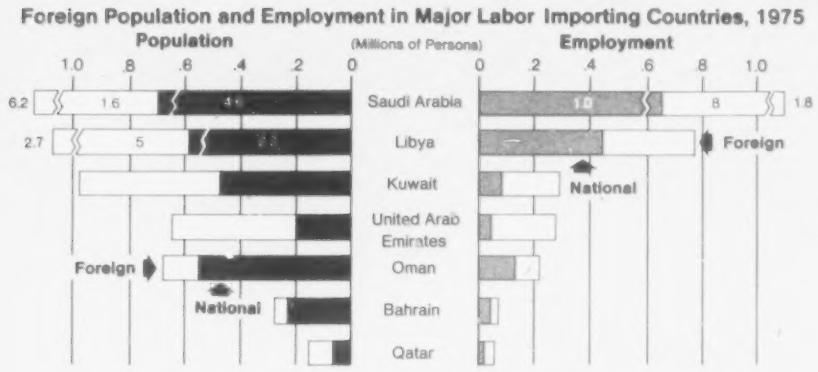




receiving countries of the social and political problems associated with having a vast number of foreign workers present. Germany was the first to halt such immigration, followed by France and Switzerland. As a result, the number of foreign workers in Western Europe declined somewhat, but the average length of stay of those remaining increased—many chose to stay for fear of not being readmitted if they left. Unemployed foreigners also preferred in many cases to remain in the host country and avail themselves of unemployment benefits, rather than return home to face unemployment or low-paying jobs. The number of foreign workers in host countries declined from 6½ million in 1974 to around 5 million in 1978, but at the same time total foreign population rose from 10¼ million to an estimated 12 million.

Certain patterns are clearly established in the international labor flow. Thus, the Irish work almost

Labor Migration in Arab Countries



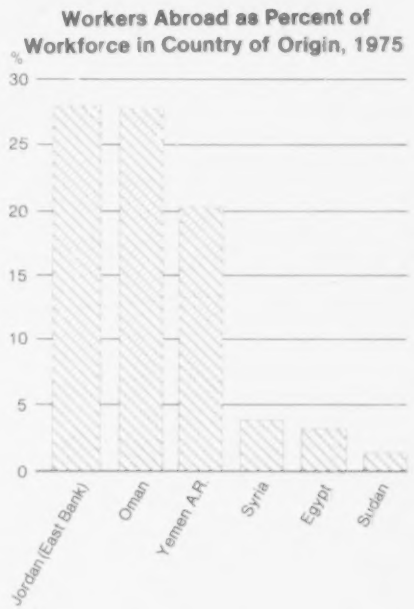
exclusively in Britain; the Finns go to Sweden; and the Austrians to Germany and Switzerland. The Italians, as members of the Common Market, are guaranteed free labor movement within the Community and are more widely spread. France employs most of the Portuguese, Moroccans, Algerians and half of the Spaniards; while most of the migrants from Turkey, Yugoslavia and Greece go to Germany.

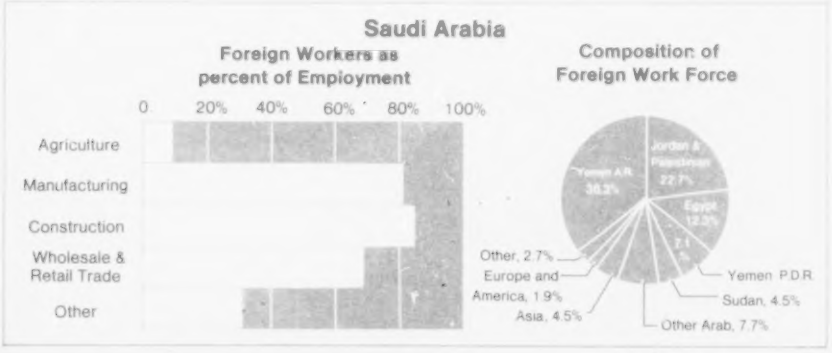
The original premise was that foreign workers were a reserve labor force to be employed in booms and laid off or sent home in slowdowns. However, the host countries are increasingly realizing that most foreigners are there to stay, and that ways must be found to assimilate and integrate them.

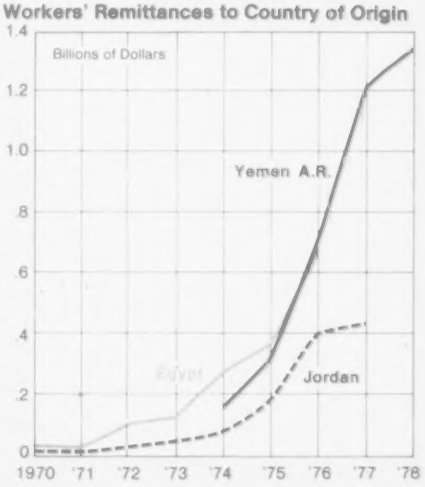
From the standpoint of the sending countries, the large-scale migration has had obvious advantages: It has relieved chronic unemployment, provided training and experience for the work force, and also contributed to improving the sending countries' international payments balances. The benefits are qualified, however. The number and quality of the workers leaving home has almost always been determined by host-country needs—not those of the sending countries—and the former tend to pick the better educated workers. Moreover, when the receiving countries slip into recession, workers' remittances to the exporting countries decline just at a time when they are most needed. Turkey's receipts of workers' remittances dropped from $1.5 billion in 1974 to about $900 million by 1977, or 60 percent.

The oil-rich Middle Eastern countries, lacking unskilled workers as well as skilled technical and managerial personnel, are the newest labor importers. The ambitious development programs, fueled by a wealth of petrodollars, have poured millions of migrants into these countries to the point where foreign workers outnumber the local work force in some cases. The fear of social and political upheavals and the renewed fervor of Islam have brought about some tightening of work permits for foreign workers, and a crackdown on illegal immigrants, but demand is expected to remain at high levels.

Eva Culen







4

ECONOMIC ROAD MAPS

Eva Culen, Editor — Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

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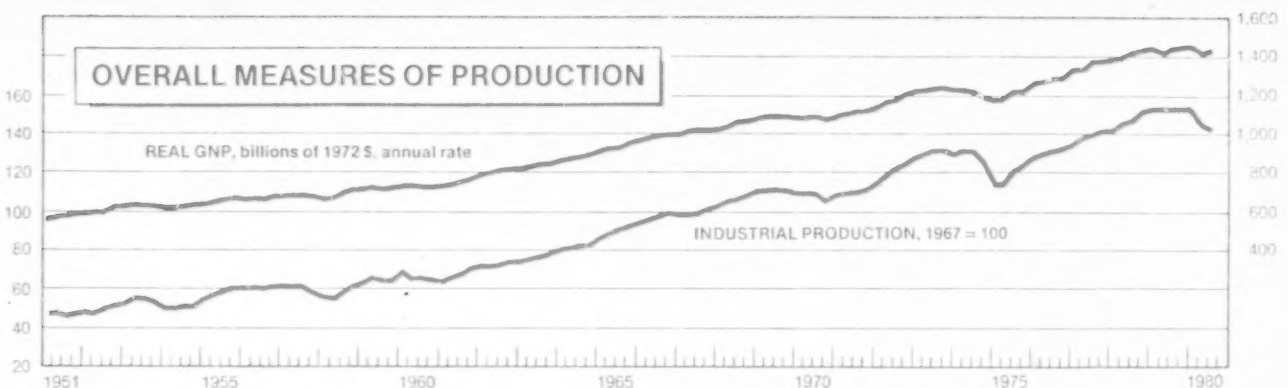
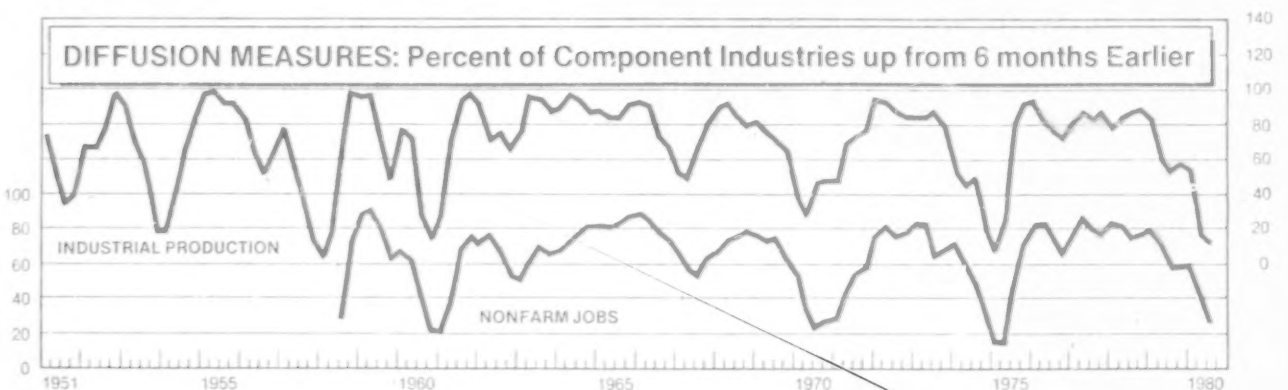
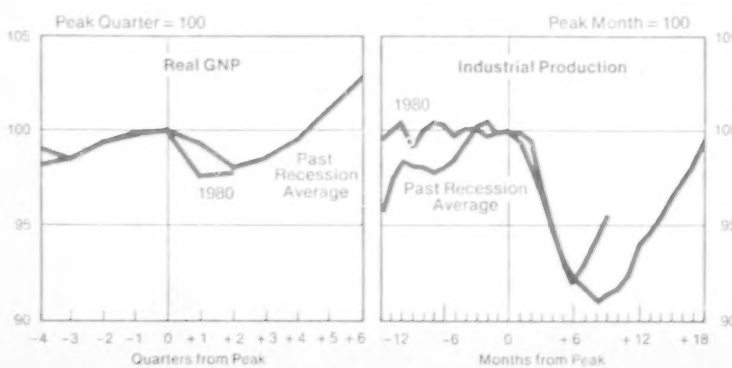
The 1980 Recession in Perspective

Economic Road Maps
Nos. 1892-1893 December, 1980

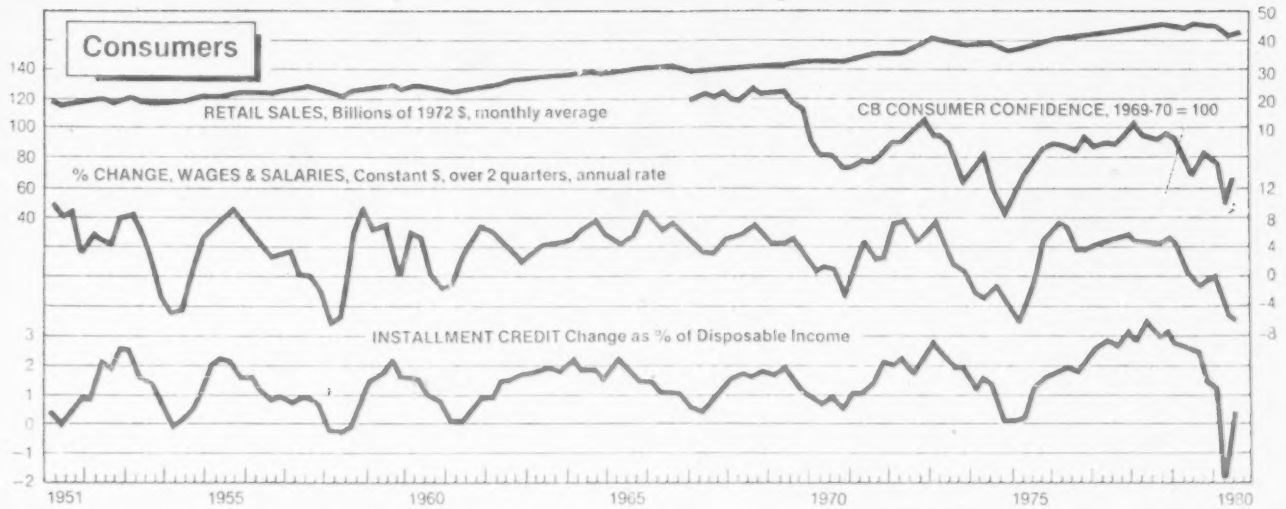
According to the National Bureau of Economic Research, the U.S. economy reached a business cycle peak in January 1980 and then moved into the seventh recession since World War II. The NBER, a private organization that is the accepted judge of the cycle, has not yet designated the trough date, but economists feel that it was around August and a two-quarter recession is shaded in these charts. In addition to the NBER-dated recessions, there was a quasi-recession in 1966-67 and it also is shaded. The 1980 recession was led by autos and housing, but the diffusion measures below show that weakness was as pervasive as in past recessions. Although the slump generally resembled past patterns, the early recovery showed a critical difference—a prompt upturn in inflation and interest rates that has raised serious questions about the durability of the expansion trend.





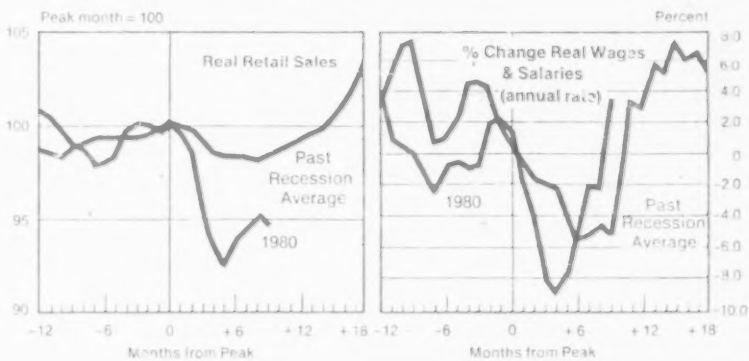


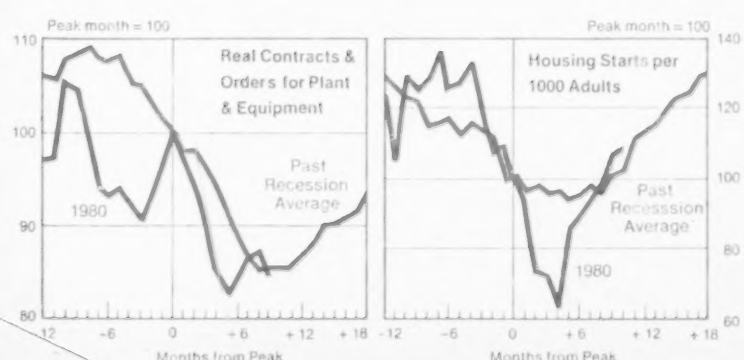
The "past recession averages" drawn in the small charts on this and the following pages are averages of five recessions beginning with that of 1953-54 (but omitting the 1966-67 quasi-recession). The 1980 declines in real GNP and industrial production were briefer than the past recession average, and the real GNP decline was also sharper than average. This was followed by a tiny GNP rise in the third quarter and it is expected that the fourth quarter will show at best another very small gain.



When income growth slowed, a slump in consumer markets was inevitable. The final blow was delivered by the consumer credit controls instituted last March, which precipitated an extraordinarily large net repayment of debt in the second quarter. The associated drop in retail volume was brief but very sharp. There was a brisk initial rebound, but now there is a question as to just how strong retail sales really are.

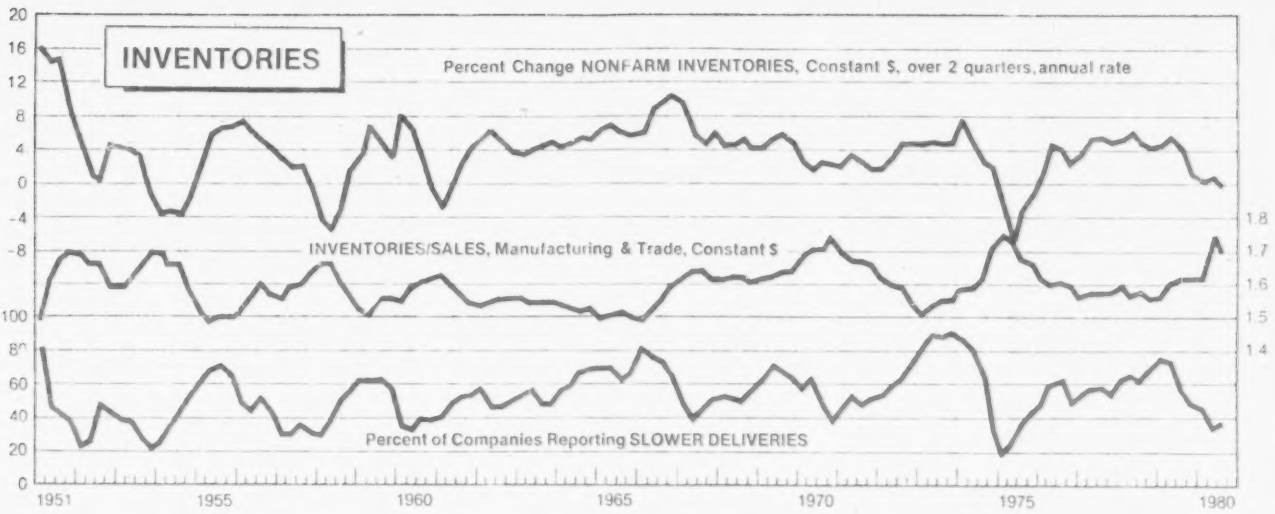
Housing starts also declined much more sharply in 1980 than in the "average recession." The high cost and limited availability of





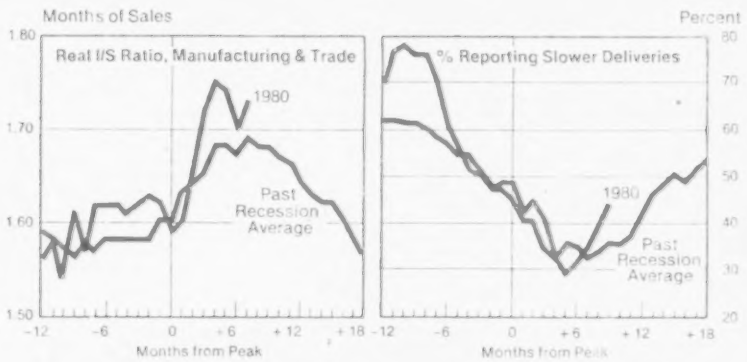
mortgage credit were the main reasons for the slump, rather than any overbuilding such as has been associated with some recessions. Nor was business capital investment in any serious imbalance in 1980. The shrinkage of orders for plant and equipment was in line with past patterns and presages a soft year for capital investment in 1981—not surprising since capital investment always lags after the overall economy.

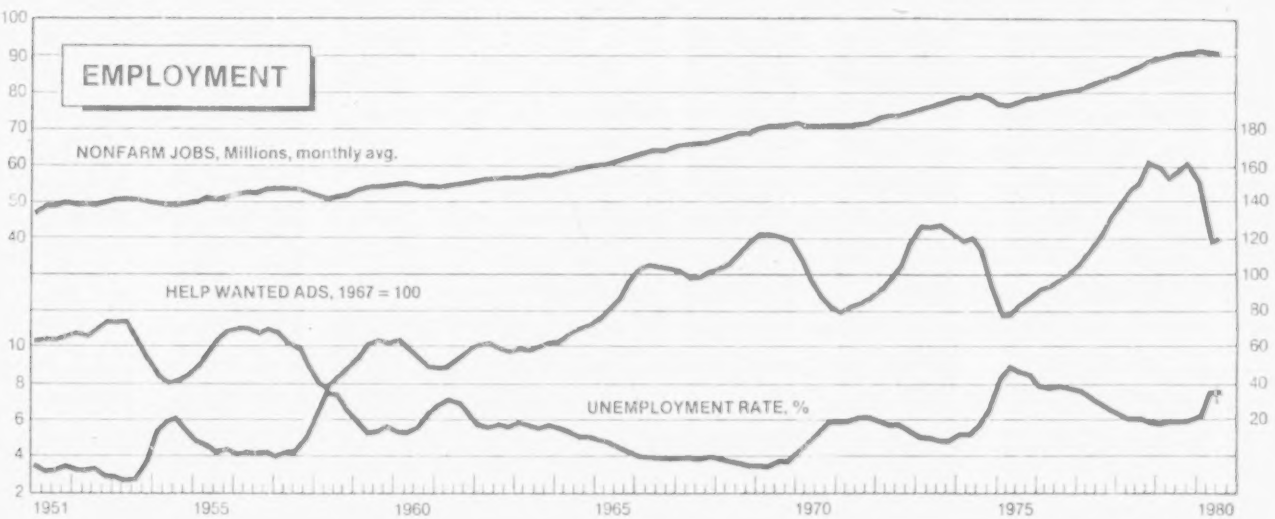
Inventory difficulties are a common feature of recessions. Prior to the 1980 recession,

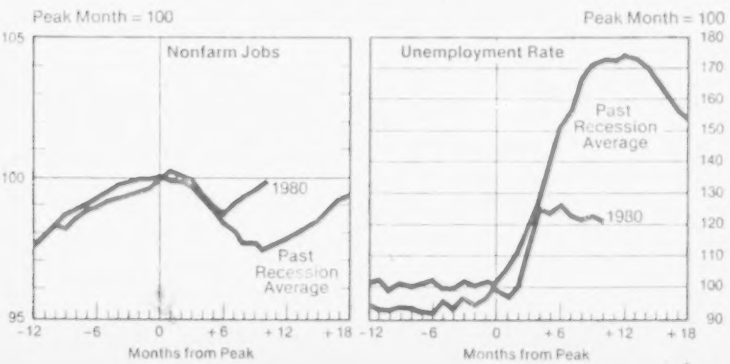


however, inventory growth didn't get seriously out of hand. The inventory-sales ratio did shoot up, but the adjustments that had to be made were not traumatic.

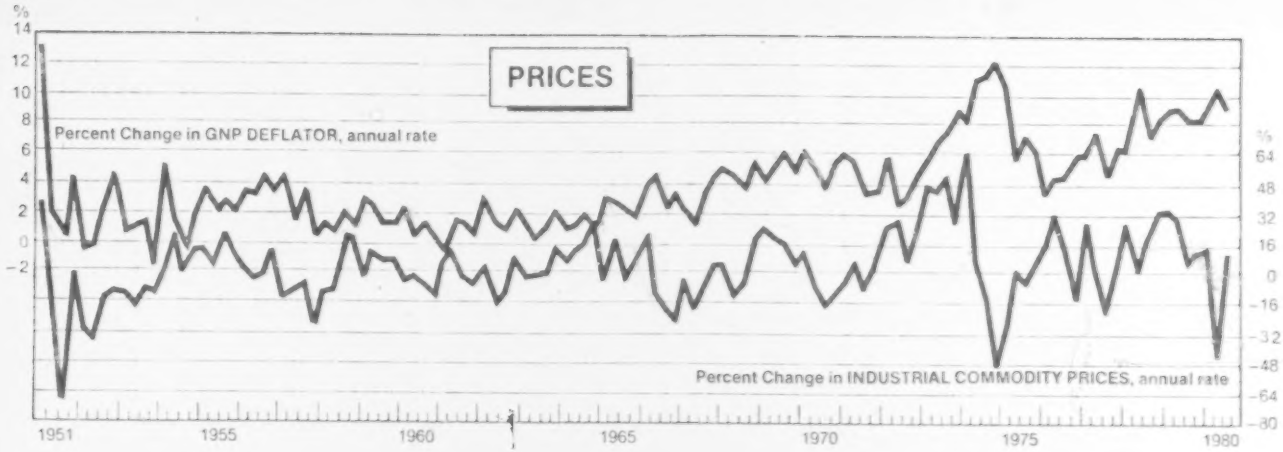
Labor market data give striking evidence of the brevity of the 1980 recession. Nonfarm employment bottomed out only 6 months after the business cycle peak and only a bit more than 1% under the peak. In the average of past recessions, employment shrank about 3% over a span of 10 months. Similarly, the unemployment rate did not rise nearly as much in 1980 as in past recessions.







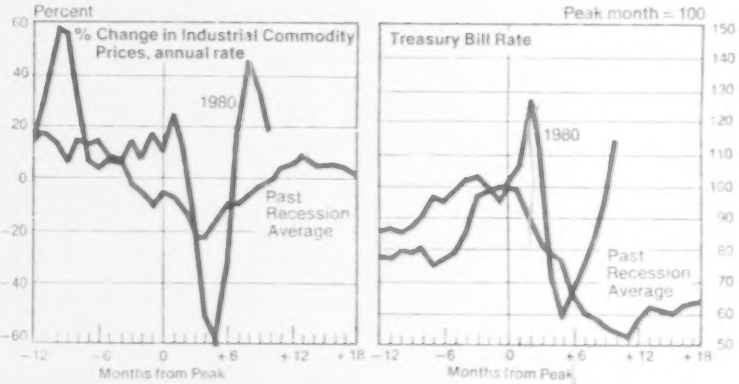
The usual pattern is for inflation to ease after recession, because markets have weakened and labor productivity is improving. But the 1980 slump seems to have made little dent in inflation and probably did not reduce expectations of future inflation. Interest rates, which move with the inflation rate, increased enormously in late 1980. This is very much contrary to past patterns and has generated doubt about the

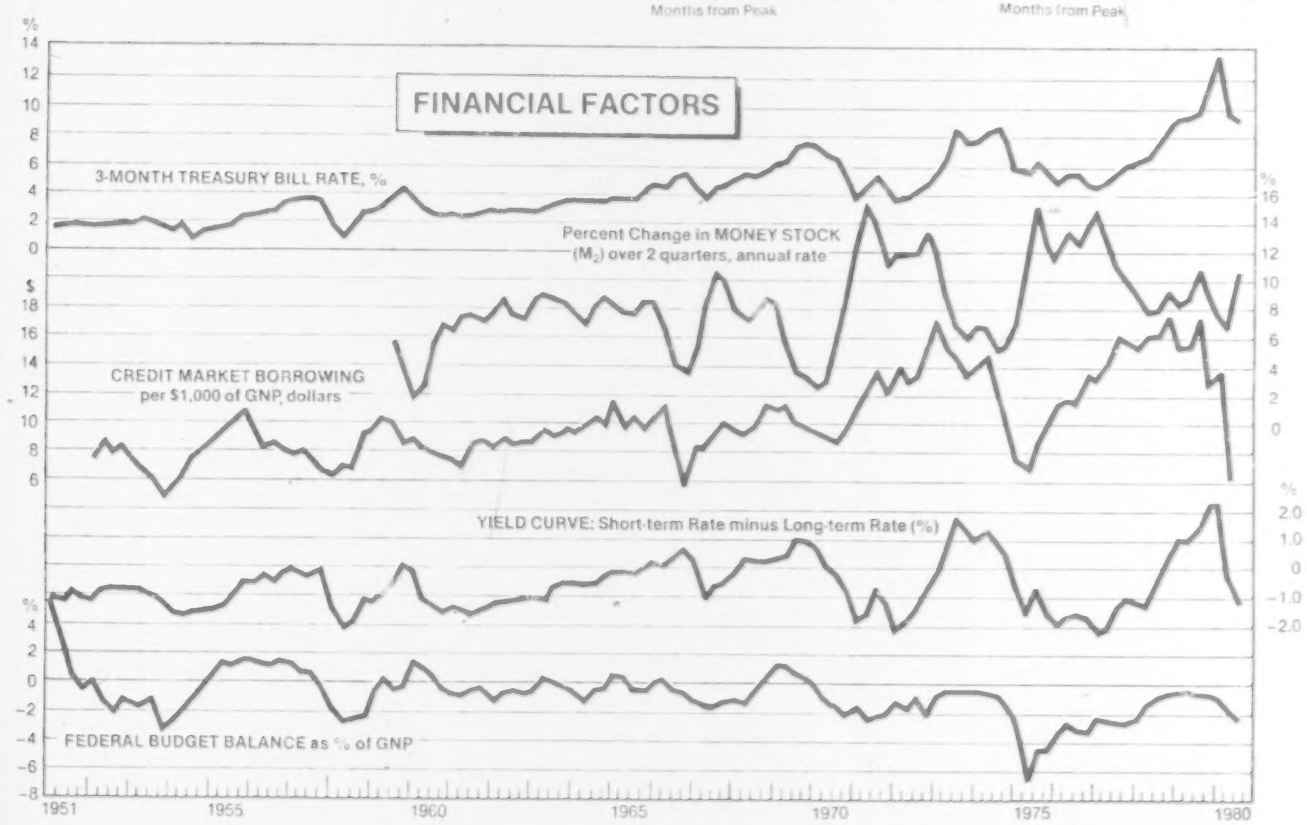


prospects for continued expansion. Another element in the current interest rate picture is the Federal Reserve's determination to hold down the growth of money and credit, a determination that has not figured significantly at the comparable phase of past recoveries.

Lora S. Collins

Sources: Federal Reserve; Department of Commerce; Department of Labor; The Conference Board.





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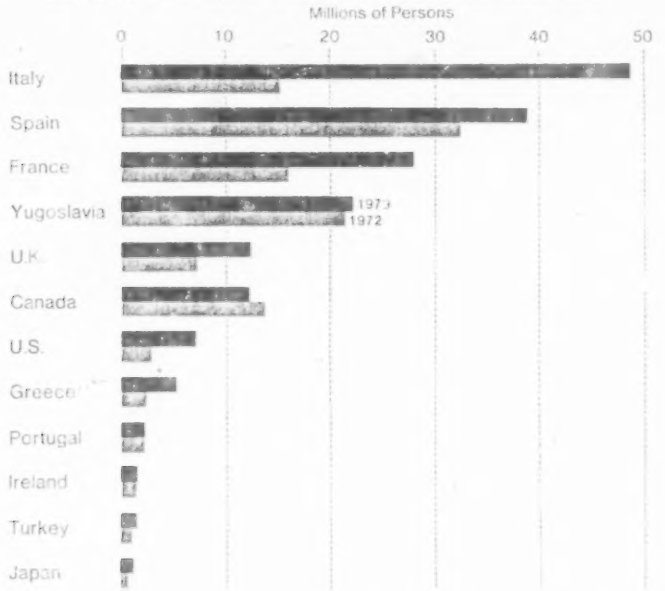
International Travel

Economic Road Maps
Nos. 1894 - 1895 January, 1981

Following an unprecedented expansion during the post World War II era, growth in international travel is showing signs of a slowdown. This is the result of worsening economic conditions in the industrialized countries, continually rising oil prices, high worldwide inflation rates, worsening unemployment, and in the case of U.S. travelers, a steadily deteriorating dollar. Still, the World Tourist Organization estimates tourist arrivals at 270 million in 1979, an increase of 4% over the previous year; receipts from tourists rose from $66 billion in 1978 to $77 billion in 1979.

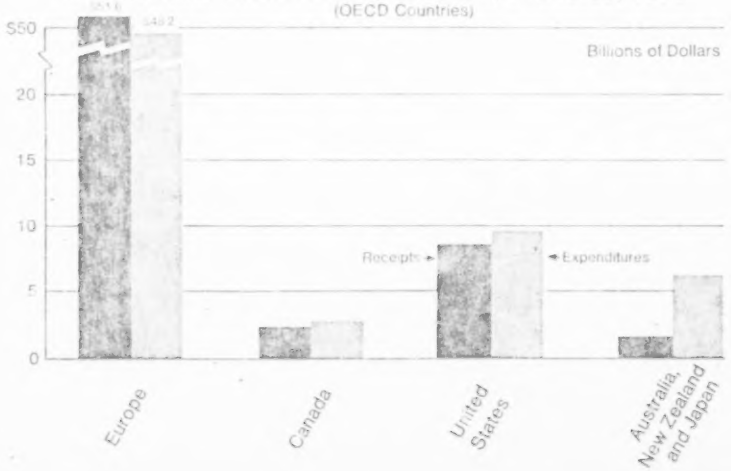
Number of Tourist Arrivals in Selected Countries



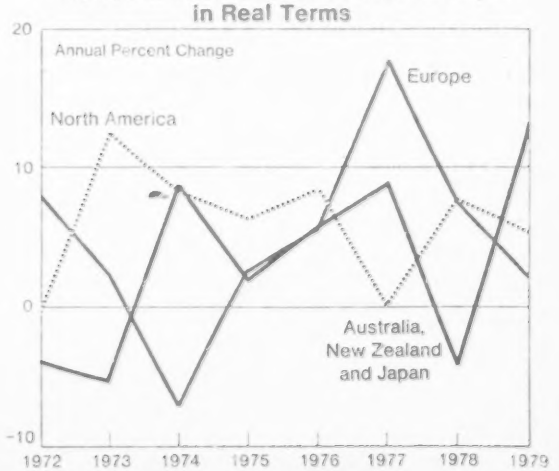
The 17% increase in receipts in 1979 was mainly the result of inflation and declining exchange rates for the dollar, in terms of which international tourist receipts and expenditures are expressed. OECD member countries accounted for over 80% of the total reported above; their receipts were $62.3 billion in 1979, while expenditures of their residents totaled $66.3 billion. In real terms, growth in international tourist receipts slowed down considerably last year, with the exception of the Australasia—Japan group. Receipts in North America rose only 5% compared with 8% in 1978, and the European OECD members had a rise of only 2% in 1979, compared with 7% in 1978 and 18% in 1977.

There was a decisive shift in travel patterns during the 1970's. For many years following WW II, Americans dominated the international travel market. Lately, however, travel by people from other countries has grown much more rapidly. In 1970, 22 million Americans went abroad, 5.2 million of whom went overseas; in 1979 the numbers were approx-

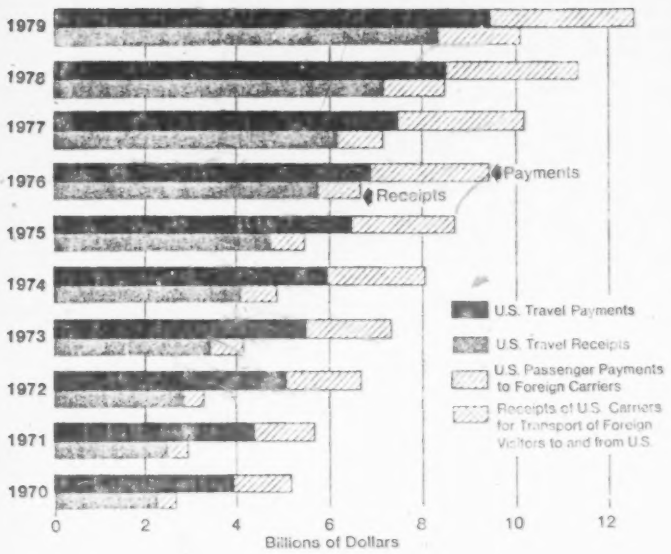
International Tourist Receipts and Expenditures, 1979
(OECD Countries)



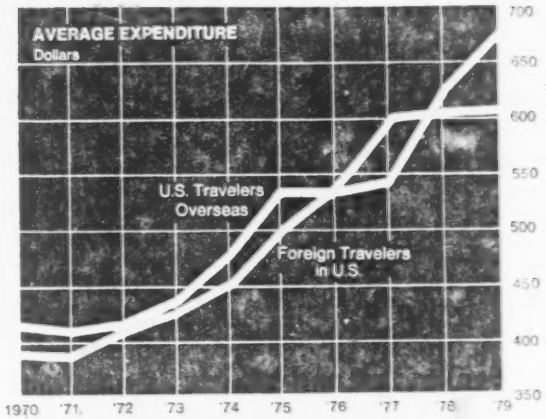
Trends in International Tourist Receipts in Real Terms

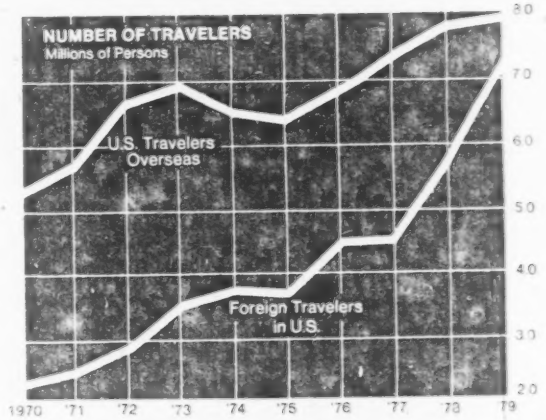


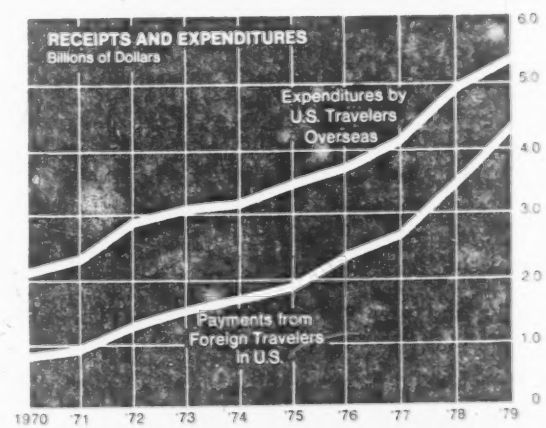
U.S. Payments and Receipts

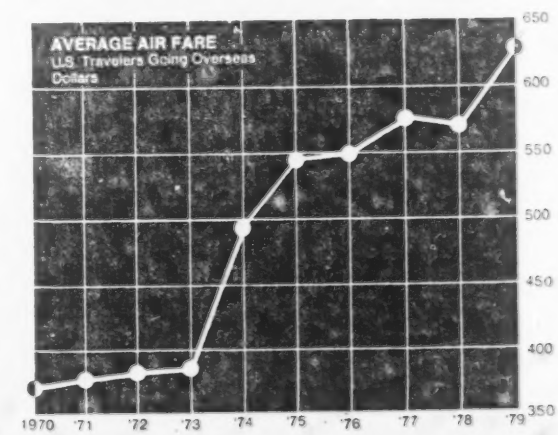


Overseas Travel









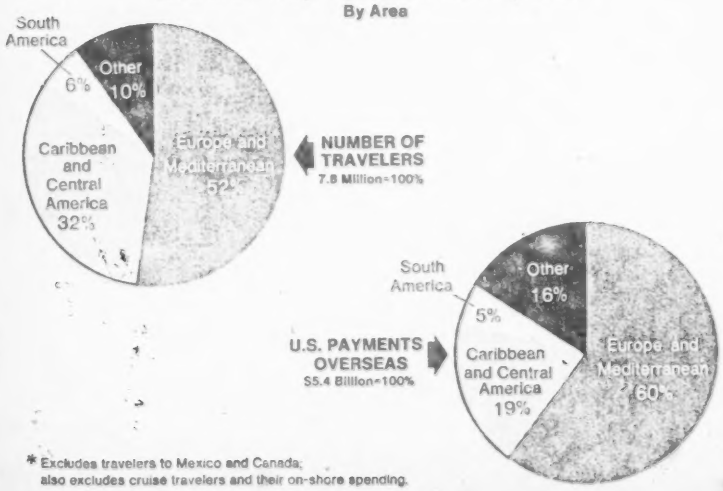
imately 23 million and 7.8 million, respectively. During the same period, the number of German tourists rose from 12 million to almost 23 million, while the number of Japanese travelers went from 600,000 to over 4 million. In terms of expenditures, the contrast is even greater: in 1971 U.S. travelers spent $4.3 billion, while German travelers spent $3.5 billion; in 1979, U.S. expenditures were $9.4 billion and those of Germans $18 billion.

The Mediterranean area remains by far the most popular place to visit. Italy, Spain, France, Greece, Portugal and Yugoslavia accounted for over half of the total 270 million tourist arrivals during 1979.

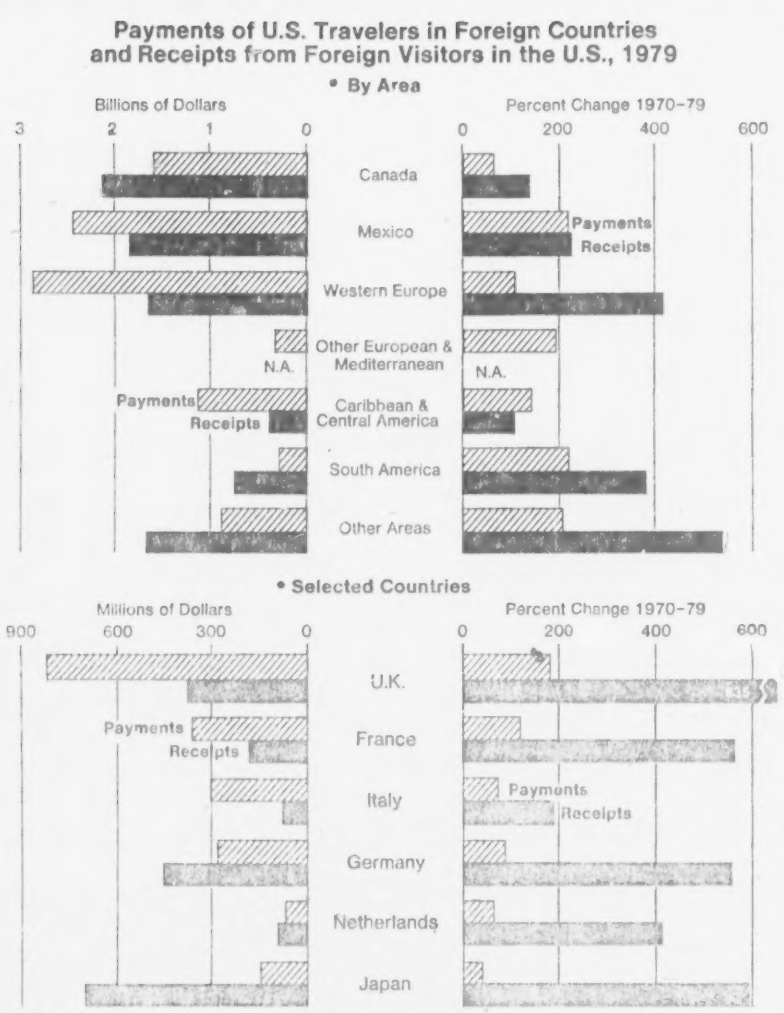
Another phenomenon in international travel during the 1970's has been the spectacular increase of overseas visitors to the United States. Their number has tripled since 1970, while the number of U.S. visitors overseas rose by only 50 percent. Recently, the growth has been especially fast with increases of 28% in 1978 and 25% in 1979. The reasons are easily identifiable—economic affluence, strong currencies that afford tourists excellent purchasing power against the dollar, low-cost fares, attractive package tours, and finally the perception that the United States is "where the action

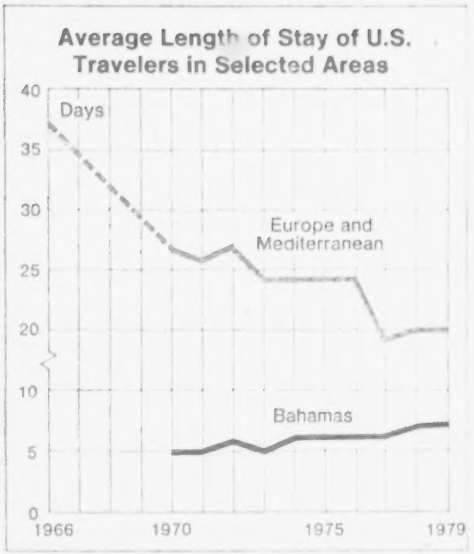
Number of U.S. Travelers and their Payments Overseas, 1979*

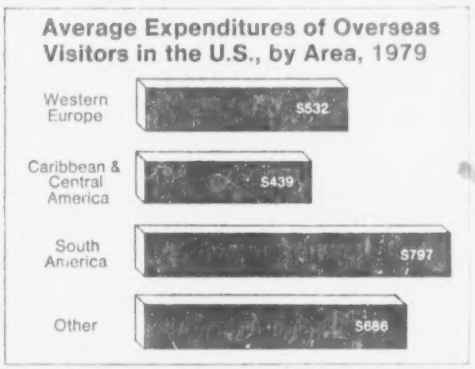
By Area

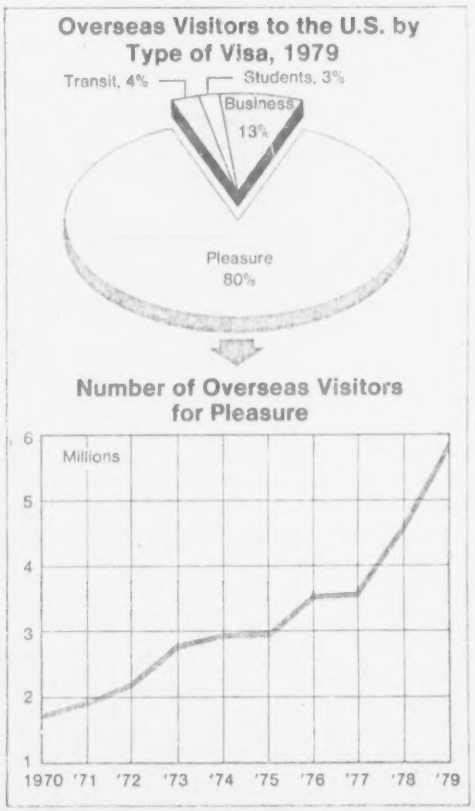


* Excludes travelers to Mexico and Canada; also excludes cruise travelers and their on-shore spending.







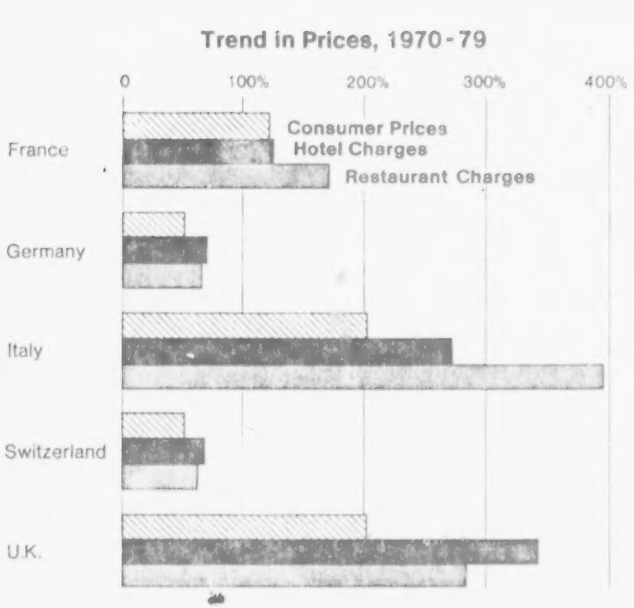


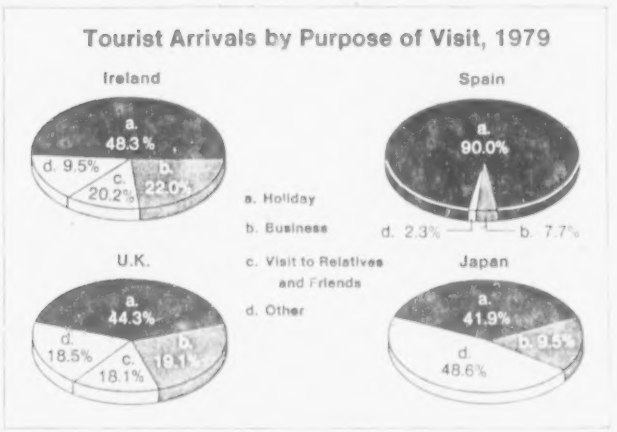
is." The largest numbers of overseas tourists came from the U. K., Germany, France and Japan. Of the over 20 million estimated visitors to the U.S. in 1979, over half came from Canada. Of the total U.S. travel receipts of $8.3 billion in 1979, approximately $2 billion each came from Canadian and Mexican travelers, and over $4 billion from overseas visitors. Receipts from Mexico have been rising much faster than those from Canada, but as a proportion of worldwide travel receipts, receipts from both Canada and Mexico fell—from 37% in 1970 to 25% in 1979 for Canada and from 25% to 22% for Mexico; overseas receipts increased from 38% to 53 percent.

Overseas visitors spend substantially larger amounts in the United States than do Canadians or Mexicans. Due to the distance they have to travel, their stay is apt to be longer, and their fare payments higher than those by visitors from the two neighboring countries.

U.S. tourists are still the single largest group in the world travel picture, but their travel patterns changed considerably in the 1970's. Buffeted by the continued loss of the dollar's value, compared with other currencies, coupled with inflation abroad as well as rising air fares brought about by the rise in oil prices, U.S. tourists have increased their spending while reducing the time they spend abroad and the number of countries they visit.

The principal destinations of U.S. tourists in 1979 were Canada, the U.K., France, Spain and Greece. Italy, for which no 1979 figure is yet available, was also a leading destination. But with the exception of Greece, where U.S. arrivals increased in 1979 by over 17%, travel by





Americans generally declined—down 12½% to the U.K., 10% to France, and 6% to Canada. Portugal, Turkey and New Zealand were the only other countries where the number of tourists from the United States increased.

Receiving countries regard tourism as an important economic and social factor; one that not only brings in foreign exchange, but also creates jobs and furthers the development of new areas.

The United States and Italy had the highest total receipts from tourism in 1979, with both earning over $8 billion. As a share in Gross Domestic Product, however, the U.S. receipts were only 0.3%, while Italy's were 2½ percent. The share was highest in Austria at 7.3%, followed by Greece with 4.2%, and Spain and Switzerland each with 3.7 percent.

In terms of export earnings, Spain, Greece and Austria each derived over 20% of their export receipts from tourism, followed by Portugal with over 18%, while the U.S. and German shares are in the vicinity of 3 percent.

Eva Culen

Sources: U.S. Department of Commerce; OECD; The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor
Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service

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Capital Stock

Economic Road Maps
Nos. 1896–1897

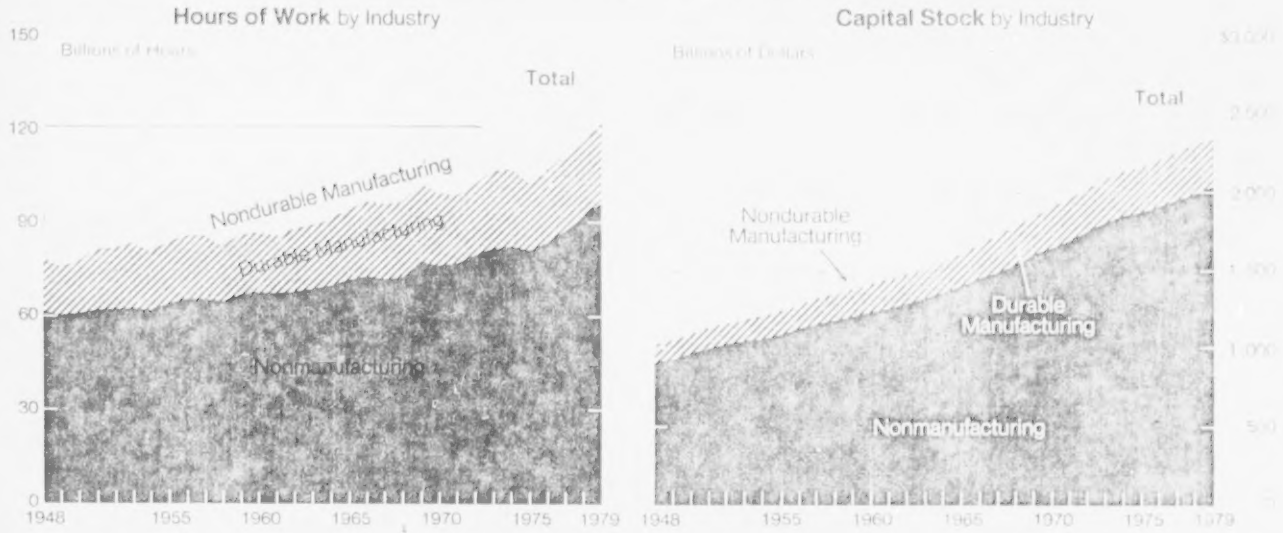
February, 1981

Virtually all of the goods and services in our economy are produced by using some labor and some capital (buildings, machines, tools, etc.) to turn raw materials or ideas into finished products. But different products require different levels of labor and capital inputs. Some processes are relatively labor intensive—that is, they require more labor inputs relative to capital input. Other processes, of course, are relatively capital intensive. There has been very little shift in these relative intensities over the last three decades. That is, the relatively labor-intensive industries of today, such as leather or apparel production, were also the relatively labor-intensive ones 30 years ago. Likewise, petroleum refining was then and is now one of the most capital-intensive processes. Throughout the economy, however, there has been a general uptrend in the amount of capital relative to the number of workers; that is, in an absolute sense, the entire economy has become more capital intensive.

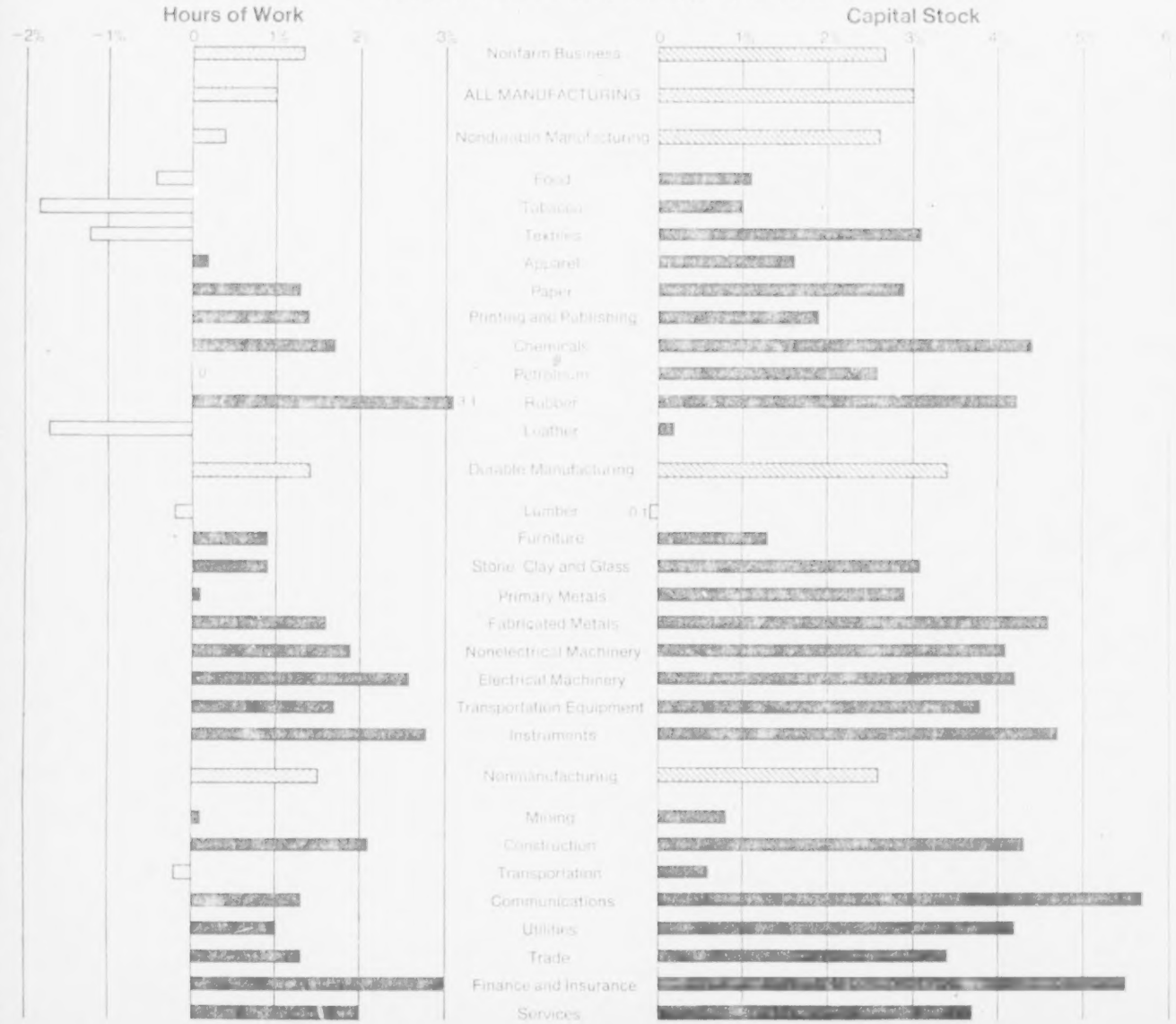
Capital / Labor Ratio
Capital Stock Per Hour Worked

Constant 1972 Dollars

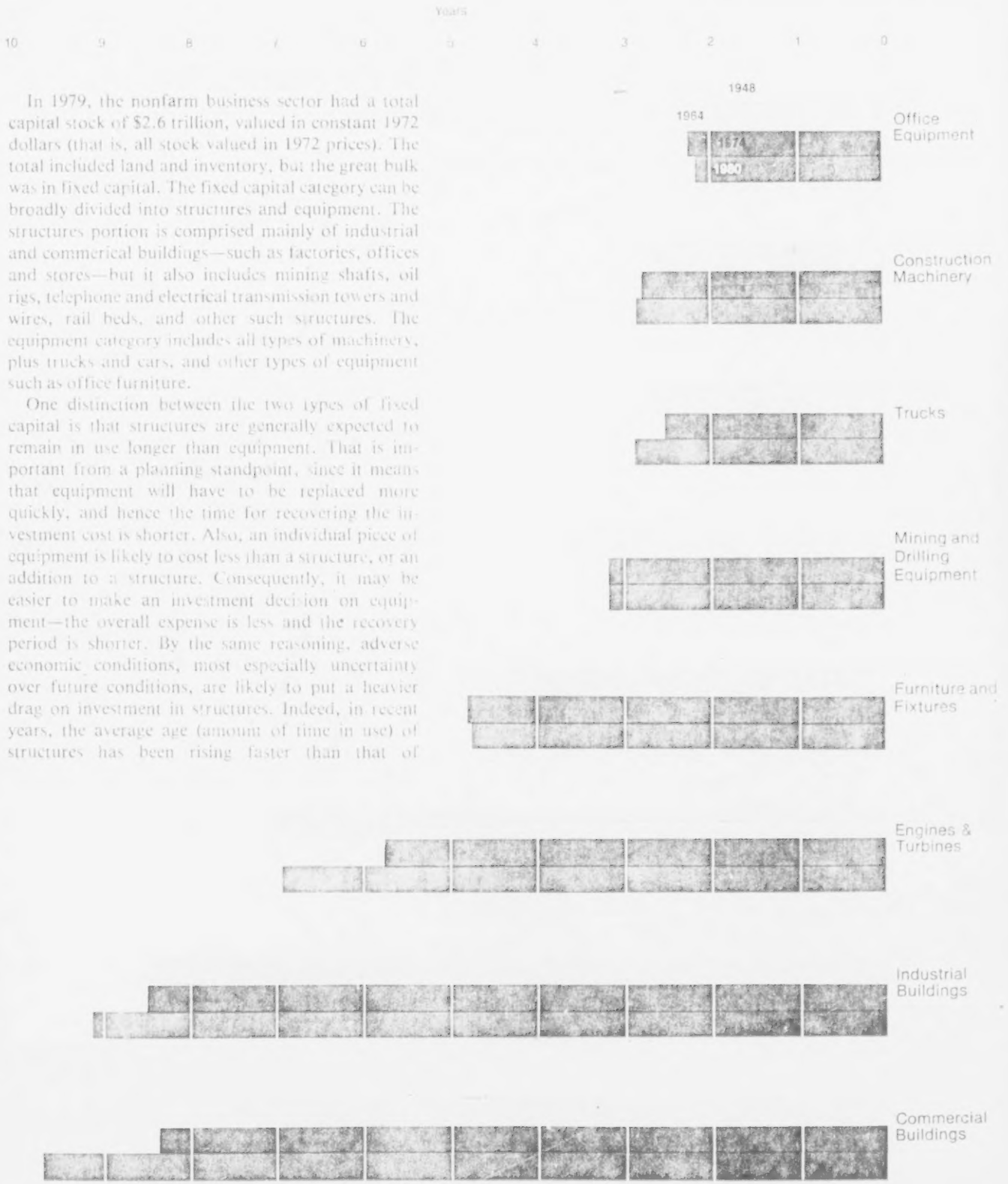
Factors of Production: Labor and Capital



Average Annual Percent Change, 1948-1979



Estimated Average Age of Selected Plant and Equipment

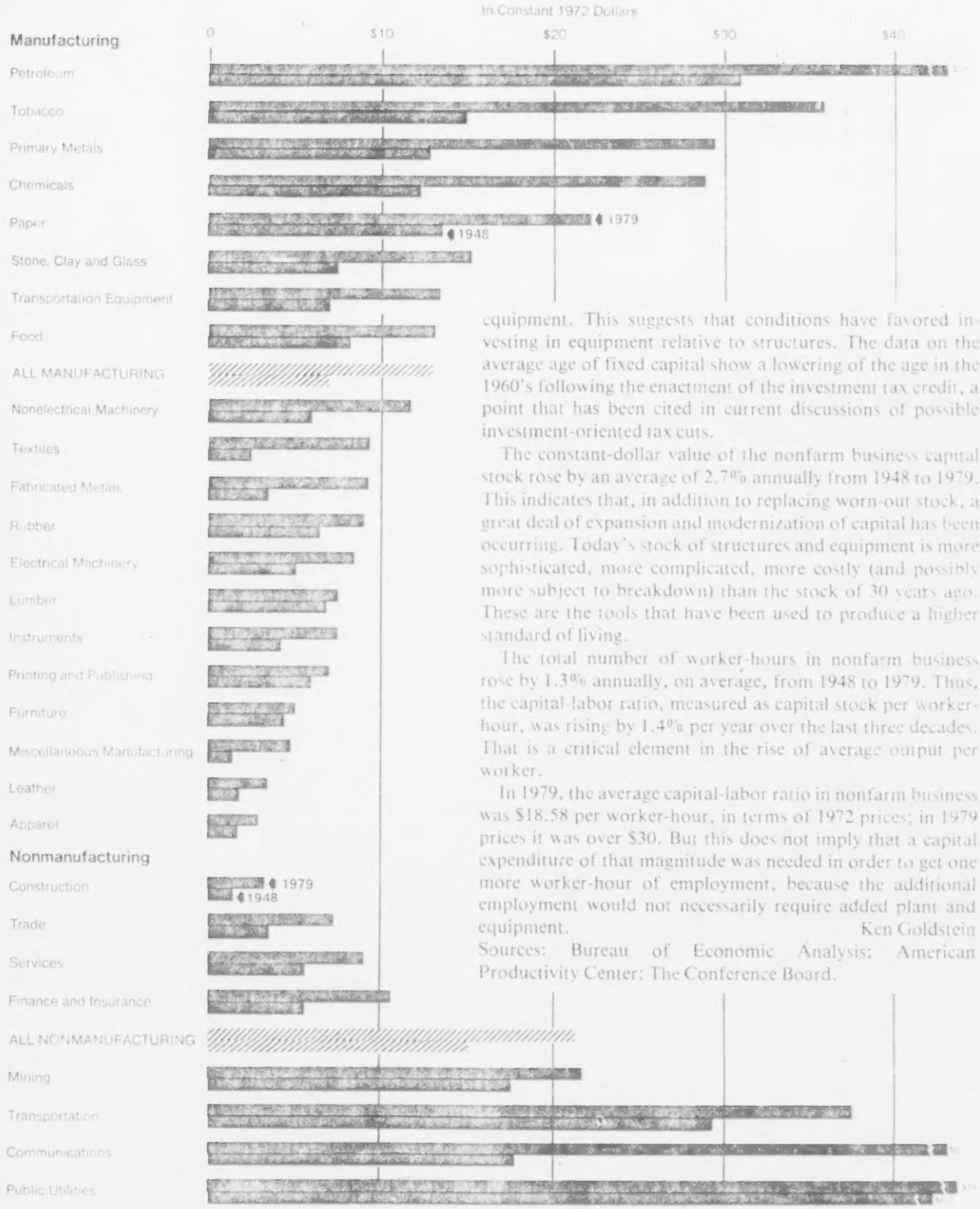


In 1979, the nonfarm business sector had a total capital stock of $2.6 trillion, valued in constant 1972 dollars (that is, all stock valued in 1972 prices). The total included land and inventory, but the great bulk was in fixed capital. The fixed capital category can be broadly divided into structures and equipment. The structures portion is comprised mainly of industrial and commerical buildings—such as factories, offices and stores—but it also includes mining shafts, oil rigs, telephone and electrical transmission towers and wires, rail beds, and other such structures. The equipment category includes all types of machinery, plus trucks and cars, and other types of equipment such as office furniture.

One distinction between the two types of fixed capital is that structures are generally expected to remain in use longer than equipment. That is important from a planning standpoint, since it means that equipment will have to be replaced more quickly, and hence the time for recovering the investment cost is shorter. Also, an individual piece of equipment is likely to cost less than a structure, or an addition to a structure. Consequently, it may be easier to make an investment decision on equipment—the overall expense is less and the recovery period is shorter. By the same reasoning, adverse economic conditions, most especially uncertainty over future conditions, are likely to put a heavier drag on investment in structures. Indeed, in recent years, the average age (amount of time in use) of structures has been rising faster than that of

Capital/Labor Ratio

Capital Stock Per Hour Worked



equipment. This suggests that conditions have favored investing in equipment relative to structures. The data on the average age of fixed capital show a lowering of the age in the 1960's following the enactment of the investment tax credit, a point that has been cited in current discussions of possible investment-oriented tax cuts.

The constant-dollar value of the nonfarm business capital stock rose by an average of 2.7% annually from 1948 to 1979. This indicates that, in addition to replacing worn-out stock, a great deal of expansion and modernization of capital has been occurring. Today's stock of structures and equipment is more sophisticated, more complicated, more costly (and possibly more subject to breakdown) than the stock of 30 years ago. These are the tools that have been used to produce a higher standard of living.

The total number of worker-hours in nonfarm business rose by 1.3% annually, on average, from 1948 to 1979. Thus, the capital-labor ratio, measured as capital stock per worker-hour, was rising by 1.4% per year over the last three decades. That is a critical element in the rise of average output per worker.

In 1979, the average capital-labor ratio in nonfarm business was $18.58 per worker-hour, in terms of 1972 prices; in 1979 prices it was over $30. But this does not imply that a capital expenditure of that magnitude was needed in order to get one more worker-hour of employment, because the additional employment would not necessarily require added plant and equipment.

Ken Goldstein

Sources: Bureau of Economic Analysis; American Productivity Center; The Conference Board.

ECONOMIC ROAD MAPS

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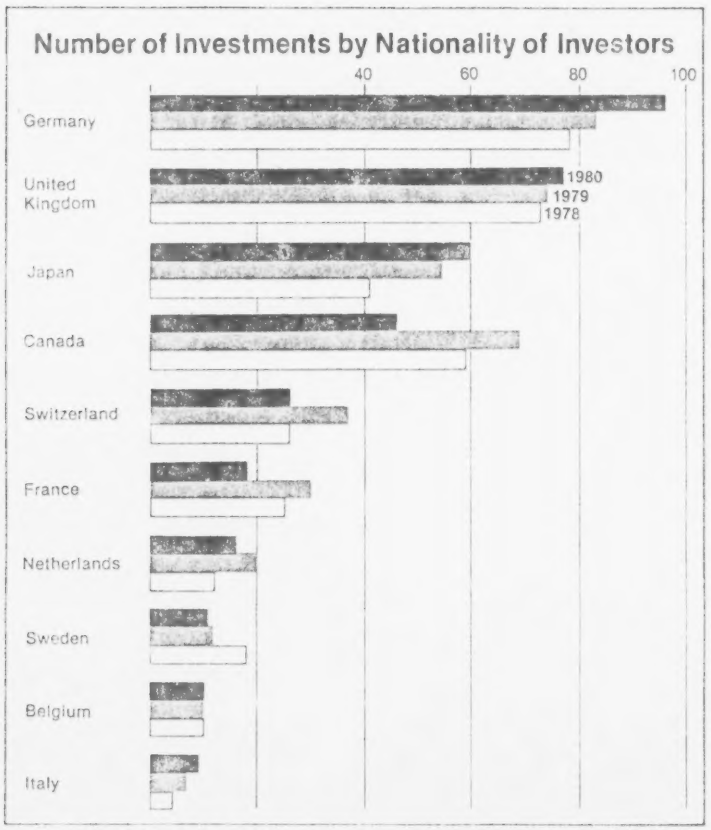
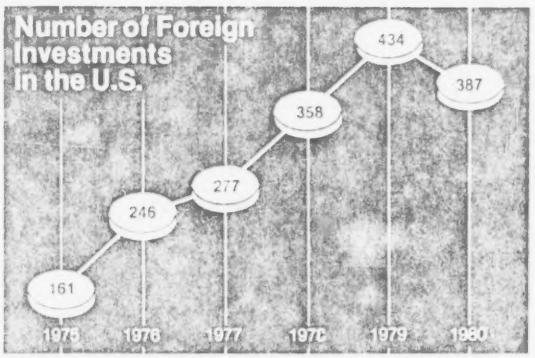
Foreign Manufacturing Investments in the United States

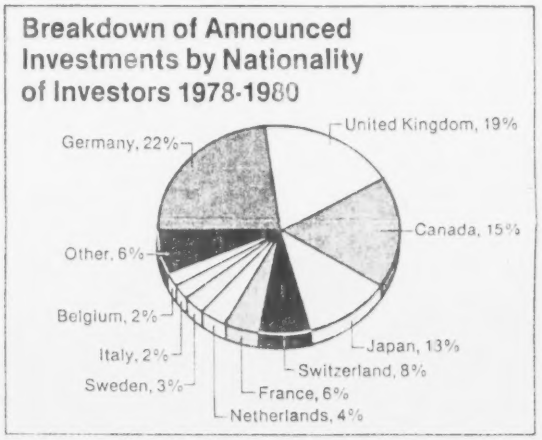
Economic Road Maps

Nos. 1898-1899 March, 1981

The current expansion of foreign companies in the United States is similar in some respects to the rapid growth of U.S. companies in Europe during the 1960's. One similarity is the recognition that, for the most part, exports can achieve only a limited penetration of a foreign market, and that substantial sales may well be attainable only by establishing manufacturing facilities in those markets. A major dissimilarity is that foreign firms in the United States are unlikely to achieve the large market shares in some major industrial sectors that U.S. firms have attained in Europe.





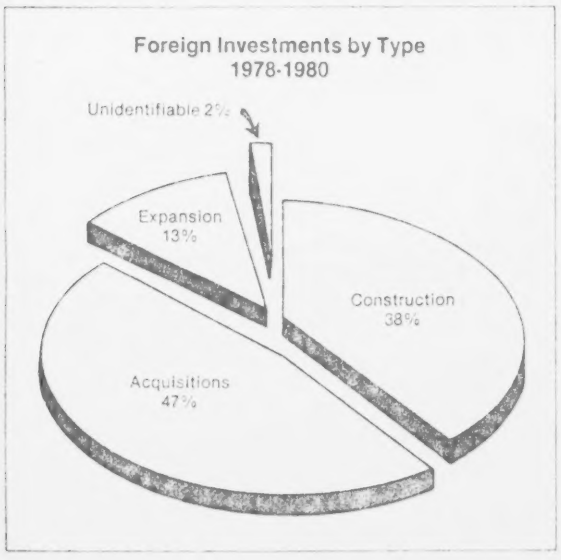


The establishment of manufacturing facilities in the United States by foreign firms occurs so frequently now that the recent origin of these investments is often overlooked. Prior to the 1970's, most foreign producers preferred to export to this country. In a relatively short span of time, however, several events occurred that diminished the prospects for growth of export sales to the United States and increased the attractiveness of establishing U.S. manufacturing facilities.

In 1971, the United States suffered the first deficit in its merchandise trade balance since 1888. Subsequent trade deficits, fueled partly by the jump in oil prices which began in 1974, spawned fears that growing protectionist sentiment would curb the expansion of foreign producers' sales in this country. Many foreign firms came to believe that only manufacturing facilities located within the United States would ensure a continued growth in their sales.

Announcements of New Plant Construction by Selected Country and State, 1978-1980

	California	Connecticut	Florida	Georgia	Illinois	Maryland	Massachusetts	Michigan	New Jersey	New York	North Carolina	Ohio	Pennsylvania	South Carolina	Tennessee	Texas	Virginia
Canada	2		2	3	1			1	1	11	3	1		4	2	3	
Belgium	1			1	1		1			1	2			4	1	2	1
France	3	2		1					1	1	2		1	2		4	2
Germany	2	3	2	9	3	2	1	6	8	4	12	3	2	10	4	8	8
Italy						1	2		4	2			1				1
Japan	24	1		14	1		1		3	4	4	3			5	8	1
Netherlands				3								1			1	2	2
Sweden		2					2		1		1	1	1				1
Switzerland	1	2			1		2		3	2	3	1		5	1	1	
United Kingdom	6			6		1	1		1		7	3	4			4	3



Even if the threat of protectionism had not materialized, many foreign firms were persuaded that the growth in exports that occurred during the 1960's could not be expected to continue. Many of their U.S. customers, fearful that foreign supplies could be interrupted—for instance, by a strike of dock or transportation workers in either the United States or abroad—put a limit on their purchases of foreign-made goods. Foreign firms were gradually convinced that this type of sales resistance could be overcome only by locating production facilities in the United States.

The attraction of the United States as a production site was enhanced by a major shift in the geographical pattern of production costs. In the early 1960's, wages (which typically account for one-half to three-quarters of total production costs for manufacturers) were far higher in the United States than in any other major industrial country. But compensation paid to workers outside the United States grew more rapidly during the last half of the 1960's and the first half of the 1970's. By 1975, many foreign firms found that the differential between compensation in the United States and other countries had been sharply reduced and, in some cases, eliminated. Between 1965 and 1975, for example, average compensation of U.S. manufacturing workers increased by 80 percent. In Canada, Japan, Germany, the Netherlands, Sweden and the United Kingdom, the increases were 109%, 307%, 150%, 213%, 162%, and 207%, respectively. Citibank estimates that, in 1975, hourly compensation in the Netherlands and Sweden was $7.52 and $8.27, as compared with $7.27 in the United States. In those countries where compensation was lower than in the United States, many manufacturers found that the cost of shipping and insurance eliminated price advantages stemming from lower compensation payments.

Factors other than compensation sometimes encouraged plant location in the United States. In Japan, an acute shortage of land suitable for industrial development and a near total

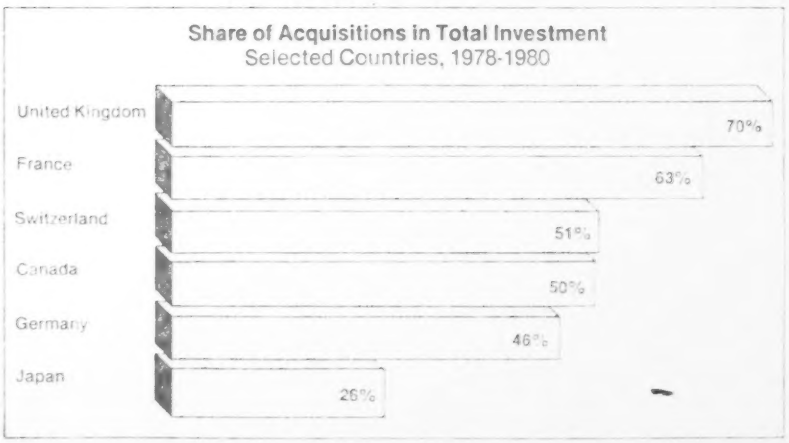
Announcements of New Plant Construction by Selected Country and Industry, 1978-1980

	Apparel	Chemicals	Electrical Machinery	Fabricated Metals	Food	Furniture	Instruments	Lumber	Nonelectrical Machinery	Paper	Petroleum	Primary Metals	Printing & Publishing	Rubber	Stone, Clay & Glass	Textiles	Transportation Equipment
Canada	2	2	4	3	8		1	1	8	4	1	5		2	6		2
Belgium		1		1	1				2			1	1			1	
France		4	5	3	3				3			2		3			1
Germany		23	14	10		1	3	2	28			2	1	3	7	2	6
Italy			1		1				3			1		1	1		2
Japan		5	31	1	5	1	6	1	11	1		7		4	2		3
Netherlands		7	2		1				1		2	1		2			1
Sweden		3		1			1		1				1				1
Switzerland		3	2	1			4	1	4	1	1		1	6		3	
United Kingdom		12	6	5	2			1	5	1	1		3	5	2	1	4

dependence on imported oil prompted some firms there to locate in the United States. In Germany, a large number of paid holidays, restrictions limiting layoffs, and worker participation in management decision making caused many firms to look favorably at the United States.

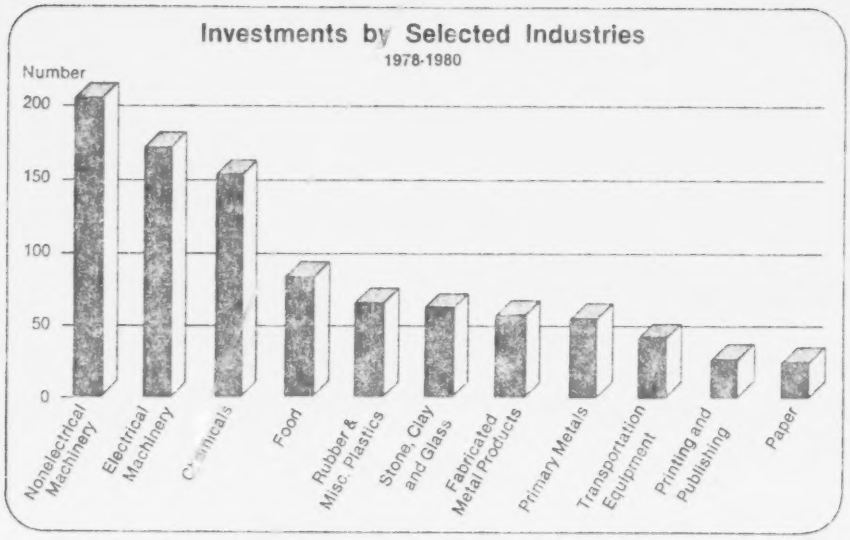
The devaluation of the dollar in the early 1970's is often cited as a major factor in encouraging investments. But exchange rate fluctations are probably more important in explaining purchases of short-term liquid securities than in accounting for investments in "brick-and-mortar" that are expected to generate sales and profits over a long period of time.

In the early 1970's, foreign investments in the United States consisted largely of new plant construction; prior to 1974, acquisitions accounted for less than 25% of all investments. In subsequent years, however, as foreign firms became familiar with operating in the United States, they became better able to evaluate the strengths and weaknesses of U.S. companies. Acquisitions then became a realistic alternative to plant construction.



Acquisitions (defined here to include the purchase of a single manufacturing plant from a U.S. company as well as the purchase of an entire U.S. firm) now account for roughly half of all foreign investments.

At the end of 1979 (latest data available), the net book value of all foreign direct investment in the United States was $52.3 billion, according to the U.S. Department of Commerce. Investment in the manufacturing sector totaled $20.0 billion: Canada accounted for the largest share ($3.6 billion); followed by the United Kingdom and the Netherlands ($3.5 billion each); Germany ($2.4 billion); Switzerland ($2.2 billion); and Japan (0.7 billion). Investments in the manufacturing sector by the OPEC nations totaled less than $52 million. Total OPEC direct investment at the end of 1979 was $400 million, of which over one-half was invested in real estate—largely office



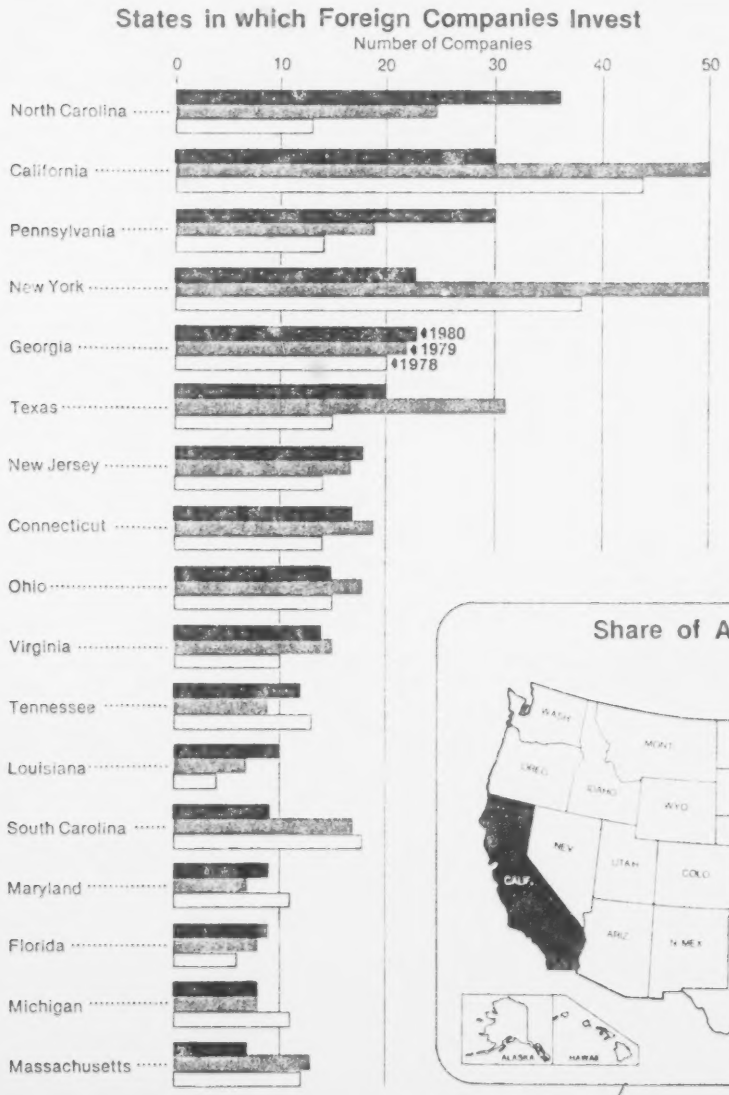
buildings located in major metropolitan areas of the United States. To date, the OPEC nations have shown vastly more interest in portfolio than in direct investment in the United States.

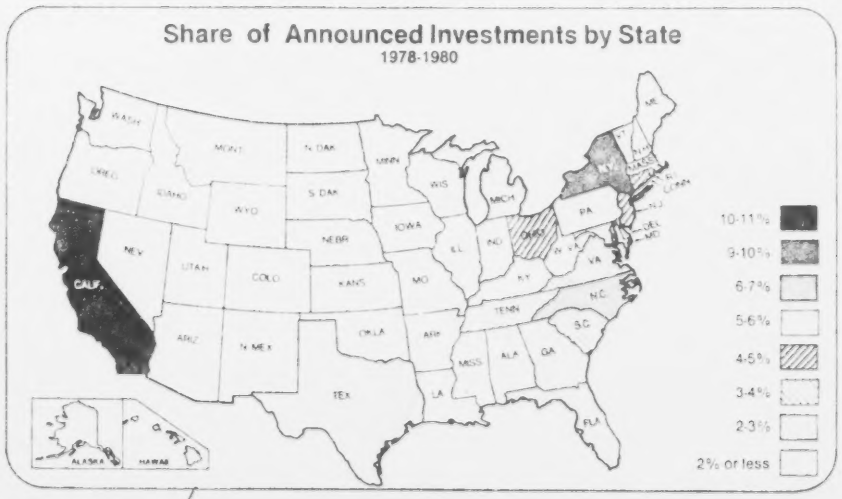
Data on employment generated by foreign direct investment are available only for 1977. In that year, all foreign firms in the United States employed slightly more than 1.1 million persons, the great majority of whom were U.S. citizens. Roughly 111,000 were employed in both New York and California; other states accounting for a large share of employment were New Jersey (81,000); Illinois (69,000); Texas (64,000); Pennsylvania (58,000); Ohio (54,000); North Carolina (42,000); Michigan (40,000); and Indiana, Wisconsin and Georgia (29,000 each).

According to the U.S. Department of Commerce, employment in all nonbanking foreign-owned companies in the United States grew by about 3% annually between 1974 and 1977—a rate which exceeded the growth in employment for most U.S. firms. Compensation received by workers in foreign-owned nonbanking companies rose at an annual rate of 13.2% between 1974 and 1977, as compared with a rate of 9.9% for domestic companies. Foreign-owned manufacturing firms employed 618,000 people in 1977.

David Bauer

Source: The Conference Board. Eva Culen





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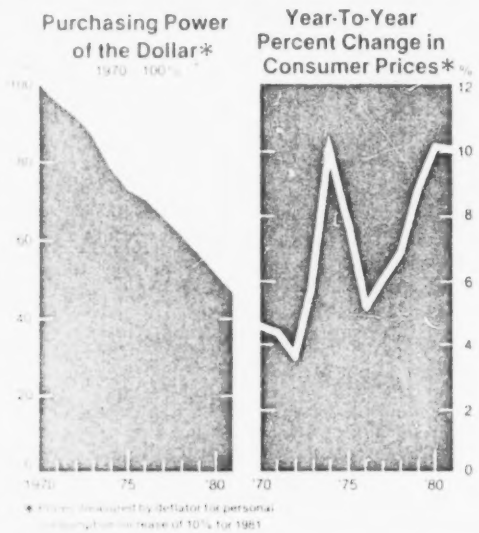
The Two-Way Squeeze, 1981

Economic Road Maps

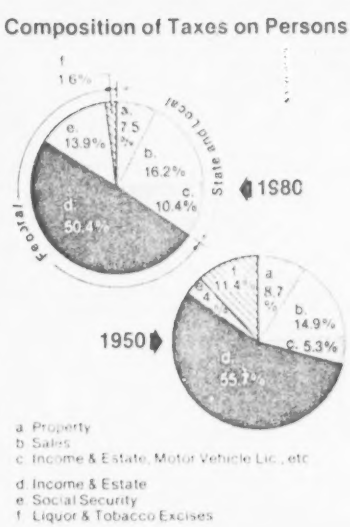
Nos. 1900-1901

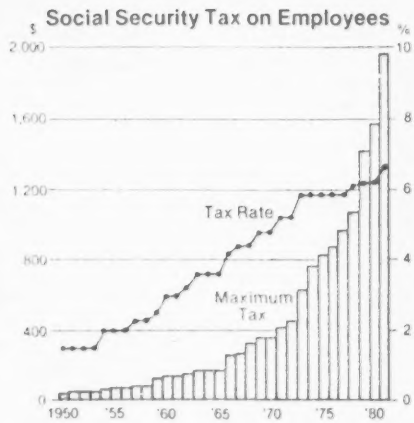
April, 1981

If the consumer price level rises 10% from 1980 to 1981, then a dollar this year will have only 47% of the purchasing power that a dollar had in 1970. Back then, the average pretax family income was just under $10,000. If a family had $10,000 in 1970, it needs $22,477 now to have the same after-tax purchasing power that it enjoyed then. Most of this required increase is due to the inflation that has cut the purchasing power of a dollar by more than half. Although federal income taxes have been cut during the decade, the middle-income family has been affected in recent years by "bracket creep" as inflation of its money income pushes it into higher tax brackets. And the social security tax has also come to take a large bite from incomes. These calculations refer only to federal income and social security taxes, because state and local taxes vary widely.

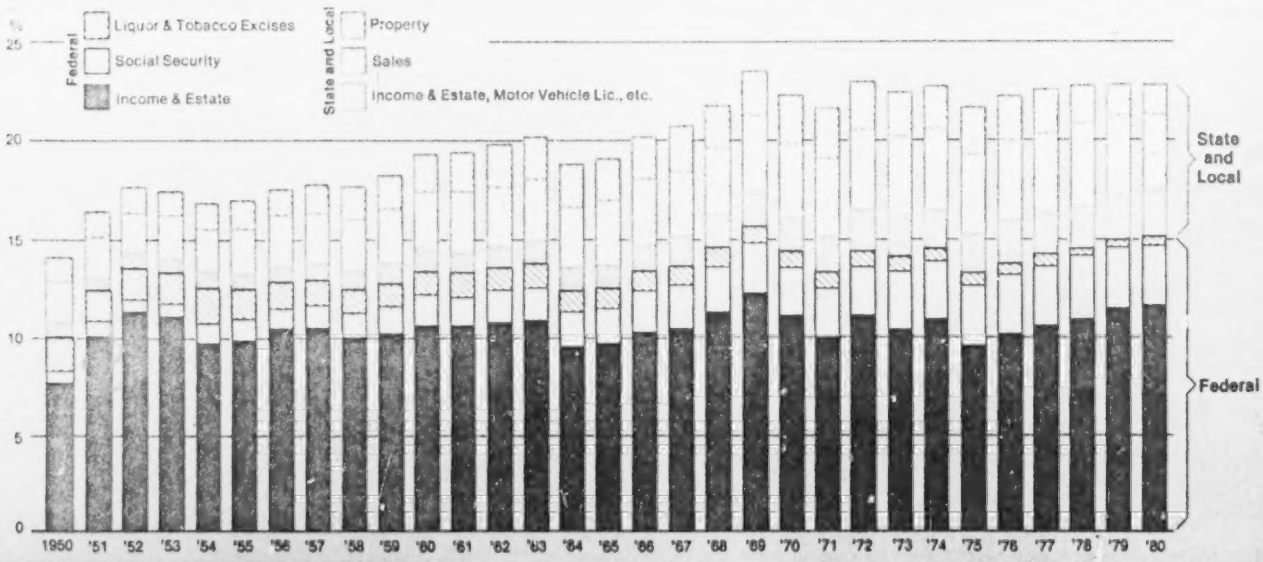


* Figures computed by deflator for personal consumption expenditures, assuming increase of 10% for 1981





Taxes on Persons as Percent of Total Personal Income, 1950-1980



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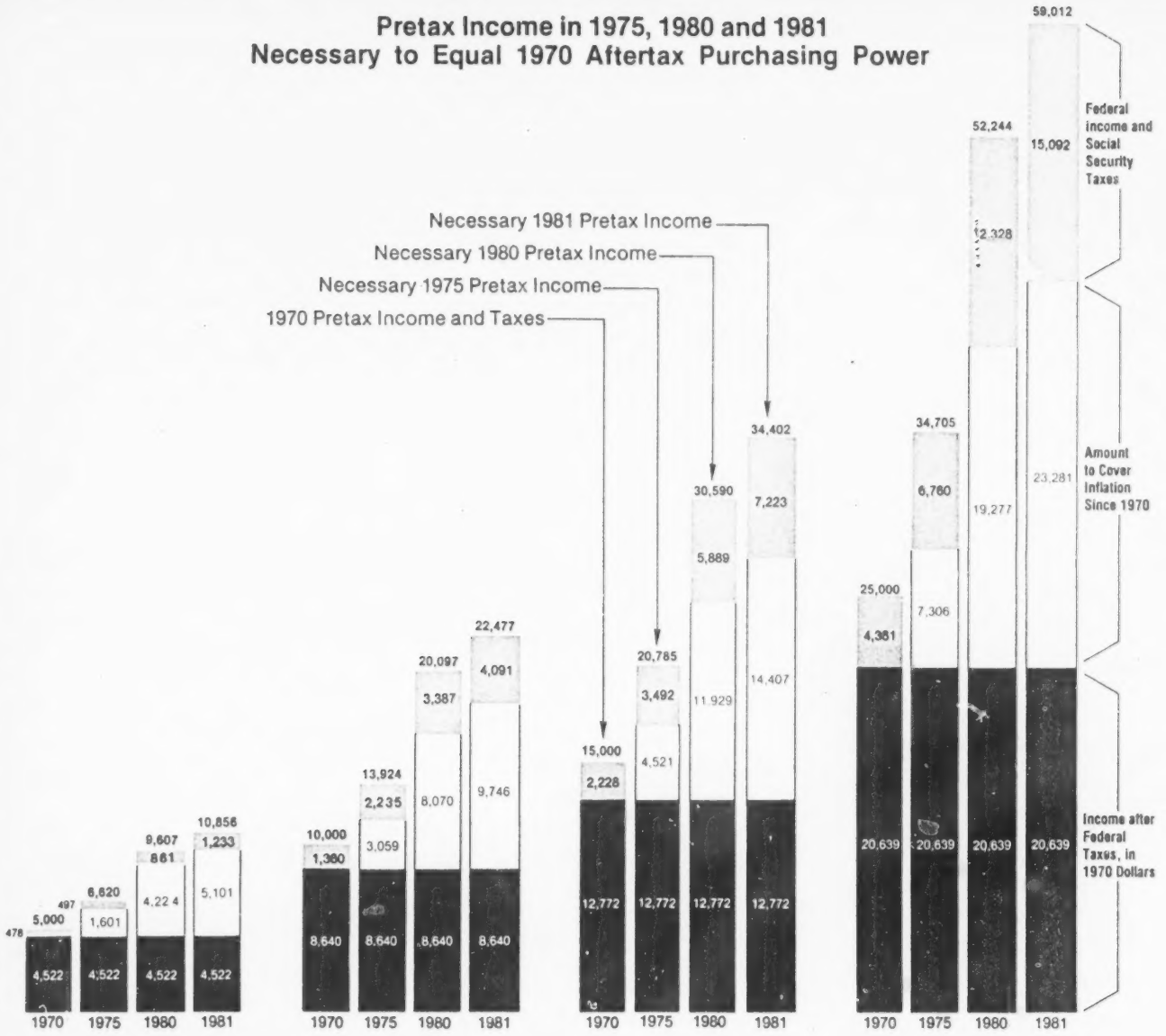
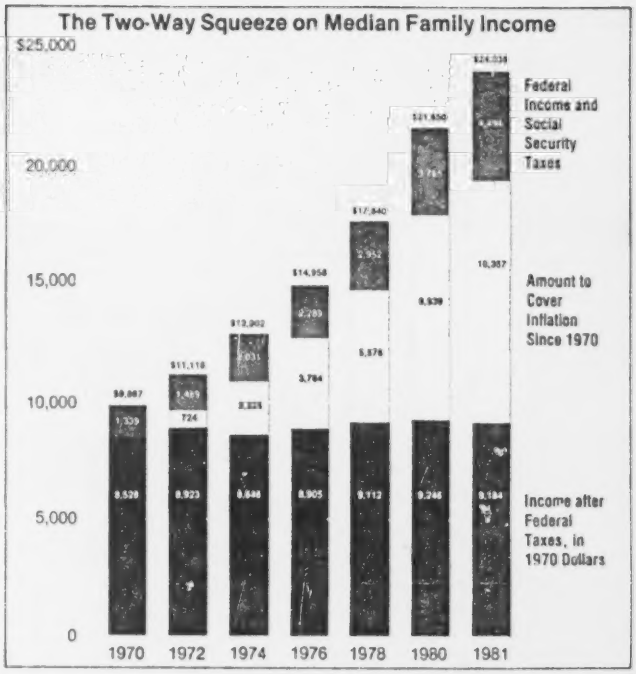
Pretax Income in 1975, 1980 and 1981 Necessary to Equal 1970 Aftertax Purchasing Power



	$ 5,000	$10,000	$15,000	$25,000	$ 50,000
1970 PRETAX INCOME					
Less: Federal income tax	238	986	1,854	3,987	11,982
Less: Social security tax	240	374	374	374	374
Equals: Income after federal taxes	4,522	8,640	12,772	20,639	37,644
1975 NECESSARY PRETAX INCOME	**6,620**	**13,924**	**20,785**	**34,705**	**70,592**
Less: Federal income tax	110	1,411	2,667	5,935	18,797
Less: Social security tax	387	814	825	825	825
Less: Amount to cover inflation since 1970	1,601	3,059	4,521	7,306	13,326
Equals: Income after federal taxes, in 1970 dollars.	4,522	8,640	12,772	20,639	37,644
1980 NECESSARY PRETAX INCOME	**9,607**	**20,097**	**30,590**	**52,244**	**106,282**
Less: Federal income tax	272	2,155	4,301	10,740	31,891
Less: Social security tax	589	1,232	1,588	1,588	1,588
Less: Amount to cover inflation since 1970	4,224	8,070	11,929	19,277	35,159
Equals: Income after federal taxes, in 1970 dollars.	4,522	8,640	12,772	20,639	37,644
1981 NECESSARY PRETAX INCOME	**10,856**	**22,477**	**34,402**	**59,012**	**119,098**
Less: Federal income tax	511	2,597	5,248	13,117	37,017
Less: Social security tax	722	1,495	1,975	1,975	1,975
Less: Amount to cover inflation since 1970	5,101	9,746	14,407	23,281	42,462
Equals: Income after federal taxes, in 1970 dollars.	4,522	8,640	12,772	20,639	37,644

Federal income and social security taxes are computed for a married couple, only one of whom works, with two children. No allowance is made for any other taxes. Calculations use the tax laws in effect each year. Deductible items are assumed to equal 17% of pretax income in 1970, 20% in other years. For calculating maximum tax and earned income credit, all income is assumed to be earned, personal service income. Inflation is calculated from the deflator for personal consumption spending, with a 10% rise assumed from 1980 to 1981.

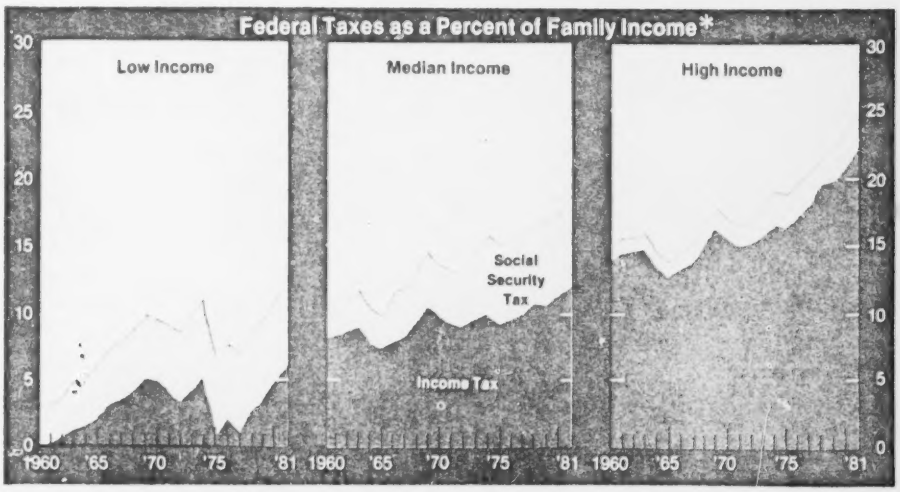
Effect of Proposed 1981 Tax Changes					
1970 Pretax Income	$5,000	$10,000	$15,000	$25,000	$50,000
Necessary 1981 Pretax Income, Current Tax Law	10,856	22,477	34,402	59,012	119,098
Necessary 1981 Pretax Income, Assuming Tax Changes	10,812	22,291	34,062	57,969	117,565

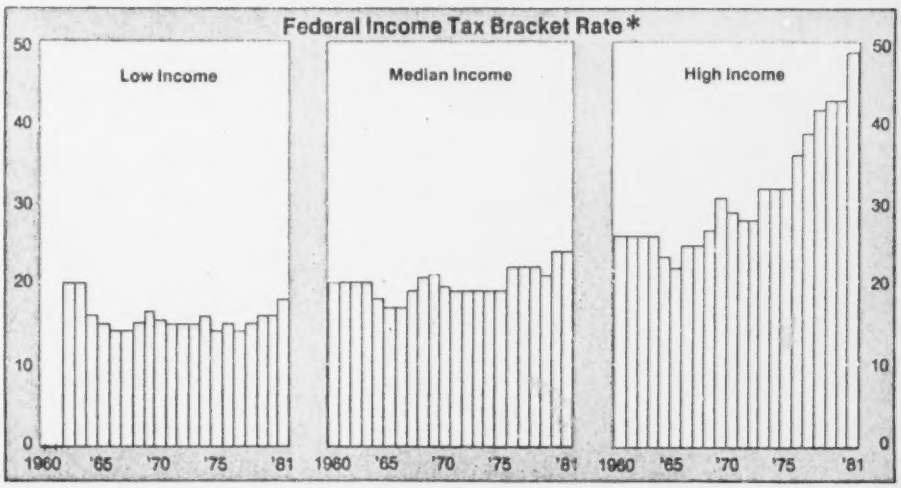


The chart on page 2 shows calculations of income before and after federal taxes for a hypothetical family of four at various income levels. (The assumptions used are outlined at the foot of the chart.) The 1970 income levels of $5,000, $10,000, $15,000, and $25,000 represent approximately the 20th, 50th, 80th, and 95th percentiles of the 1970 income distribution. The family that had $10,000 then needed $20,097 in 1980 and will need $22,477 this year in order to stay even with its 1970 after-tax purchasing power. Over $9,700 of the 1981 after-tax income is needed to cover inflation since 1970. Bracket creep is at work, too. Last year, this hypothetical family's marginal tax rate was 21%; this year it is 24 percent. In 1970, the $10,000 employee paid a social security tax of $374; in 1981, the social security tax on $22,477 of earnings is $1,495. A chart on page 1 shows the escalation of social security taxes. The maximum tax has been boosted both by the rising rate and by the rise in the taxable income limit, from $7,800 in 1970 to $29,700 this year.

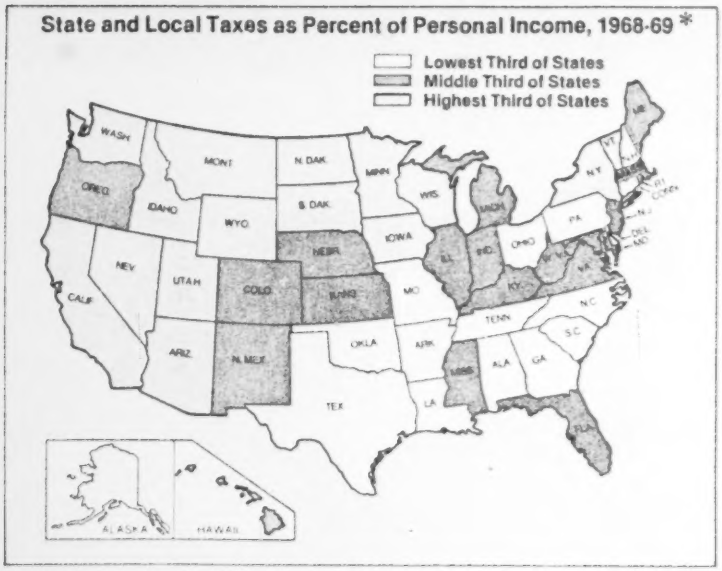
The Reagan Administration proposes to cut personal tax bracket rates by almost one-third over three years. The cut in 1981 would be only 5%, however. The effect in 1981 is indicated in the table above, which shows the "necessary" 1981 pretax incomes as calculated on page 2 and the "necessary" amounts assuming the Administration's proposal passes.

Page 2 refers to hypothetical families. The chart at the upper right of page 3 refers to the "average" real family—that is, the one at the median income level each year. Assumptions have to be made in order to calculate this family's taxes, and the ones used are those listed on page 2—even though the 4-person, 1-earner family is not truly representative. The latest actual data on family income are for 1979, when the median was $19,684. The 1980 and 1981 incomes shown here are guesstimates. The middle chart on page 3 shows





*Family income each year at the 20th, 50th, and 95th percentiles of the family income distribution. Income levels estimated for 1980 and 1981. Calculations assume 4-person family with one earner, as stated in table on page 2.

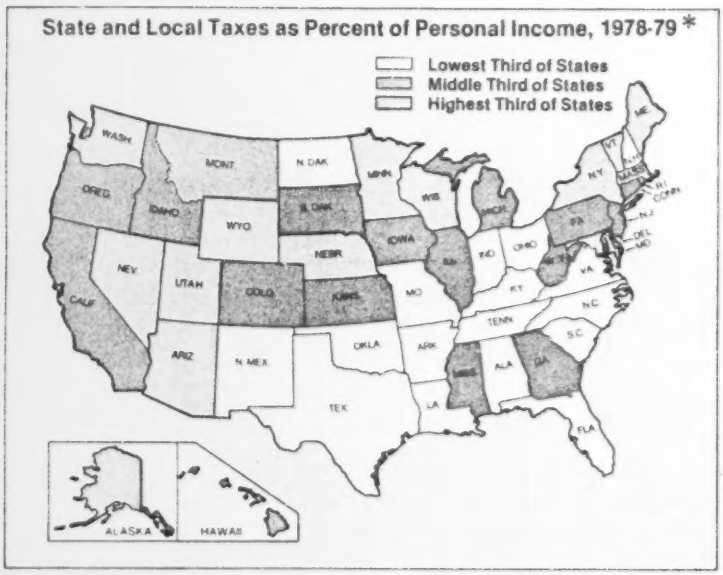


that federal income tax is taking 12% of the median family's income in 1981 and social security tax 6.7%, for a total of 18.7%; the total in 1970 was 13.6 percent. The lower panel shows that bracket creep has affected the median income family, although less dramatically than in the high-income case. The sharp recent rise in the tax take from the low-income family mainly reflects the decreasing value of the "earned income credit" as money incomes have risen.

Although it is not feasible to include state-local taxes in these calculations, it is possible to see in the lower chart on page 1 that total state-local taxes on persons have been around 8% of total personal income in recent years, with a slight downtrend, while the federal burden has edged

State and Local Taxes as Percent of Personal Income, 1968-69 and 1978-79 *

	1968-1969	*1978-1979*		*1968-1969*	*1978-1979*		*1968-1969*	*1978-1979*		*1968-1969*	*1978-1979*		*1968-1969*	*1978-1979*
ALA	9.0	9.4	HAW	13.5	14.0	MASS	11.0	13.7	NM	10.8	10.1	SD	12.7	11.1
ALAS	8.7	14.0	IDA	11.9	10.6	MICH	11.0	11.1	NY	13.6	15.8	TENN	9.2	9.5
ARIZ	12.7	13.5	ILL	9.6	10.7	MINN	11.6	12.7	NC	9.1	10.0	TEX	8.7	8.9
ARK	9.1	8.9	IND	10.0	9.4	MISS	11.0	10.8	ND	12.3	9.0	UTAH	11.6	12.2
CAL	13.0	10.9	IOWA	12.0	10.7	MO	9.3	9.6	OHIO	8.9	9.2	VT	12.5	13.1
COLO	11.3	11.7	KANS	11.0	10.4	MONT	11.6	11.2	OKLA	9.3	8.6	VA	9.8	10.2
CONN	8.5	10.5	KY	10.2	9.9	NEBR	11.4	15.6	OREG	11.4	11.1	WASH	11.6	11.8
DEL	8.8	11.2	LA	8.6	9.4	NEV	11.9	12.5	PA	9.4	11.0	WVA	10.6	11.6
FLA	10.5	9.8	ME	11.0	12.1	NH	9.2	8.9	RI	10.0	12.0	WIS	12.4	12.7
GA	9.3	10.4	MD	10.7	12.0	NJ	9.6	11.5	SC	8.8	10.1	WYO	12.9	13.4



up. Some sense of the interstate variation of tax burdens can be seen on page 4. These ratios of taxes to personal income are not directly comparable to those on page 1; the principal difference is that these figures include all property taxes while the page 1 calculations include only those on residential property.

In the 1978-1979 fiscal year, the highest ratio of state-local taxes to personal income was 15.8% in New York and the lowest was 8.6% in Oklahoma. Taxes per capita tend to be lower in the South, but incomes there are also relatively low. However, the maps—by relating taxes to incomes—show that, even allowing for this the South is generally a low-tax region.

Lora S. Collins

Sources: Bureau of the Census; Bureau of Economic Analysis; Internal Revenue Service; The Conference Board.

* Taxes: State and local tax receipts of all types, except severance and corporate income, for fiscal years ending in the 12 months preceding June 1969 and June 1979.
Income: personal income in calendar 1968 and 1978.

ECONOMIC ROAD MAPS

Eva Culen, Editor — Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
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Corporate Profits 1980

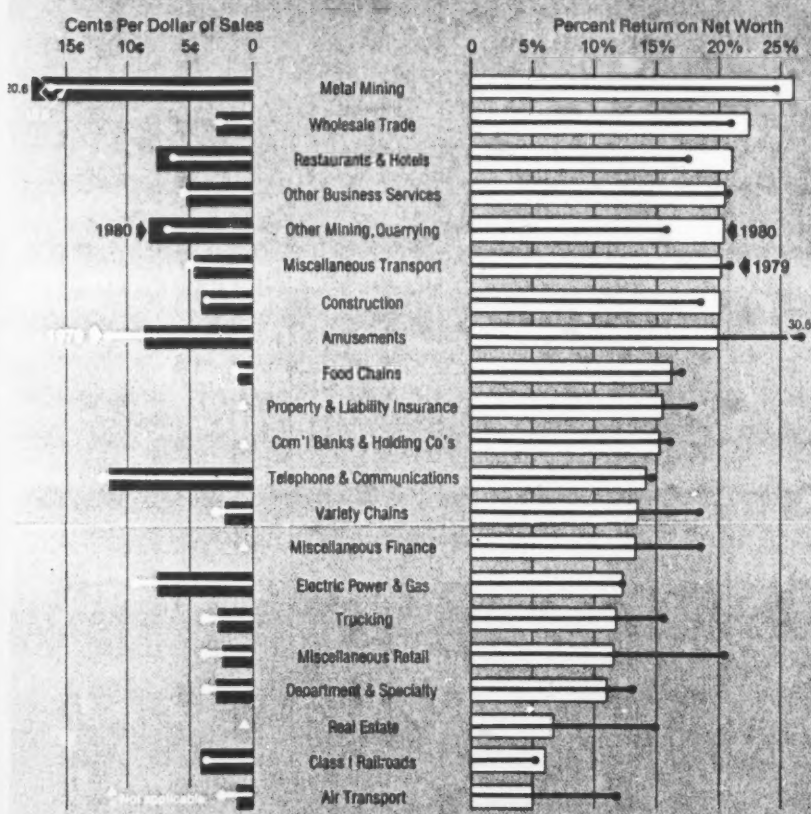
Economic Road Maps
No. 1902

May, 1981

Recession and inflation were the two major forces influencing corporate profits in 1980. According to the latest annual Citibank survey, after-tax profits of all corporations, as reported to stockholders, were up 2% in 1980 over 1979. The increase in manufacturing was less than 1 percent. Manufacturers' sales rose 14% but their margin on sales was 4.9% in 1980, down from 5.6% in 1979. After adjustments of manufacturers' earnings for inflation, real after-tax profits declined 8% in 1980.

Profits After Taxes-Nonmanufacturing

Leading Corporations: 1980 vs 1979



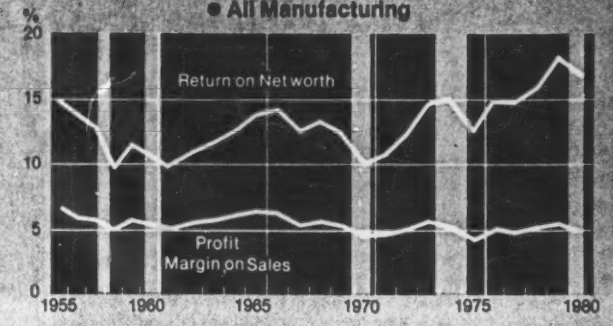
The year's profit picture was dominated by the results in two industries—oil and automobiles. The petroleum industry accounted for 43% of the profits and 36% of the sales of all manufacturing in 1980, in contrast to 1972 when it had 20% of the profits and 16% of sales. After-tax profits for the rest of manufacturing declined in the aggregate by 13% in current dollars and over 20% in real terms, on a sales rise of 6 percent. These results include the auto industry, which suffered an unprecedented loss of $4.5 billion in 1980. Removing both petroleum and automobiles, manufacturers' after-tax profits in 1980 were up 3% on an increase of 10% in sales.

Eva Culen

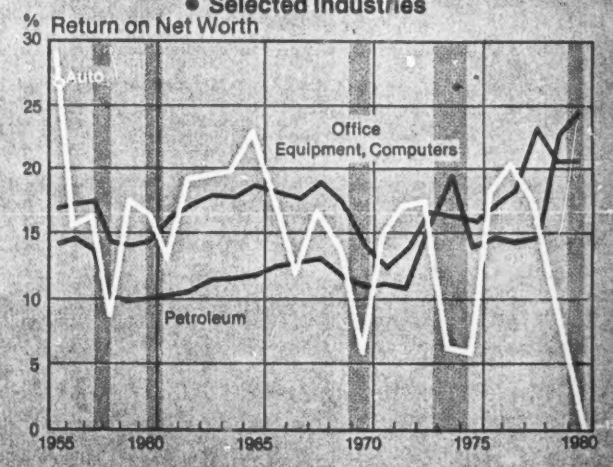
Sources: Citibank; The Conference Board.

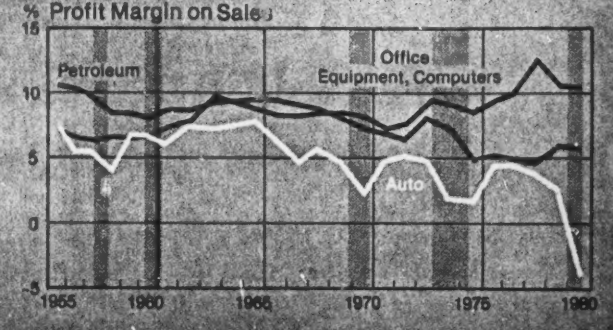
A Quarter Century of Profits

● All Manufacturing



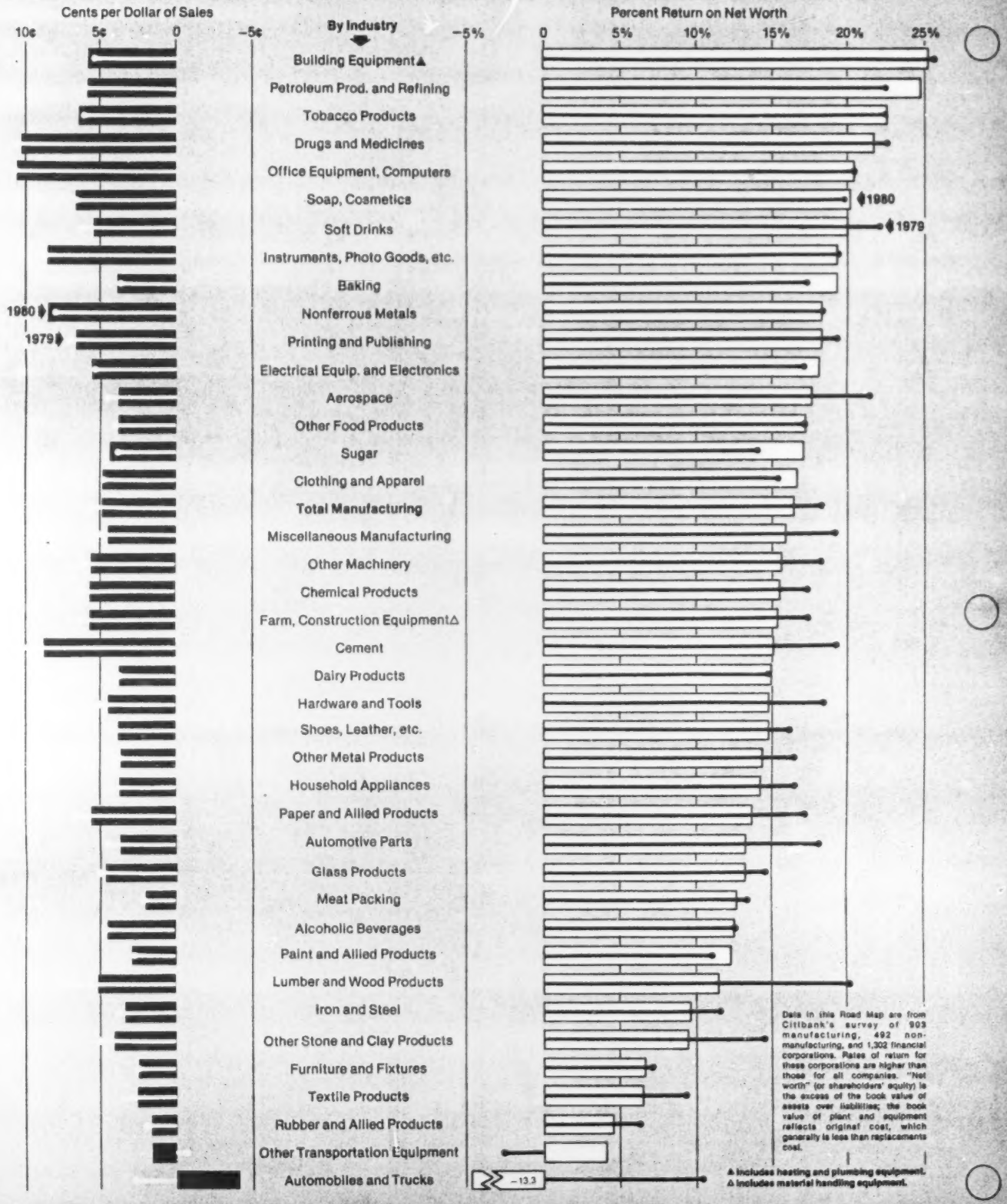
● Selected Industries





Profits After Taxes–Manufacturing

Leading Corporations: 1980 vs. 1979



Data in this Road Map are from Citibank's survey of 903 manufacturing, 492 non-manufacturing, and 1,302 financial corporations. Rates of return for these corporations are higher than those for all companies. "Net worth" (or shareholders' equity) is the excess of the book value of assets over liabilities; the book value of plant and equipment reflects original cost, which generally is less than replacements cost.

▲ Includes heating and plumbing equipment.
△ Includes material handling equipment.

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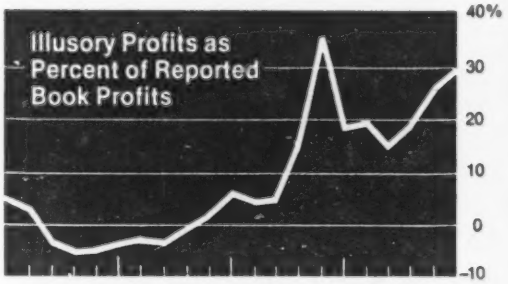
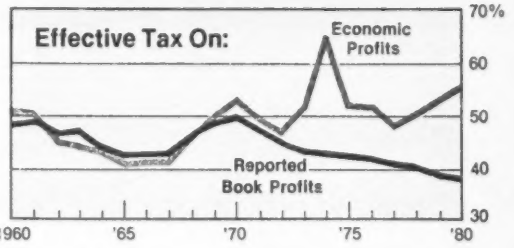
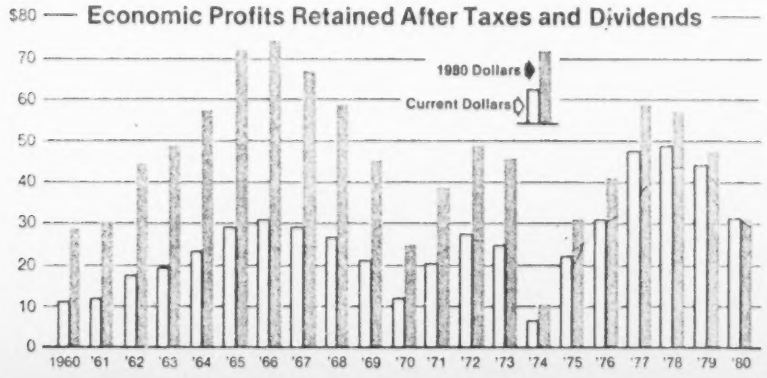
Profits– True and Illusory

Economic Road Maps
No. 1903 May, 1981

Corporate operations in the United States reported $211 billion of pretax profits in 1980. However, almost 30% of this figure consisted of "illusory" profits that is, amounts that are reported to stockholders as profits under conventional accounting methods but that are not in truth available for dividend payout or reinvestment in the business. The cost of the fixed capital used up in production is generally understated by conventional accounting methods, and the same is often true of the cost of inventories used. This understatement of costs means overstatement of profits. "Economic" profits, which are reported book profits conservatively adjusted to eliminate undercosting, were $152 billion in 1980. While reported book profits were off 5% from 1979, economic profits dropped 9% before taxes and 12% after taxes.

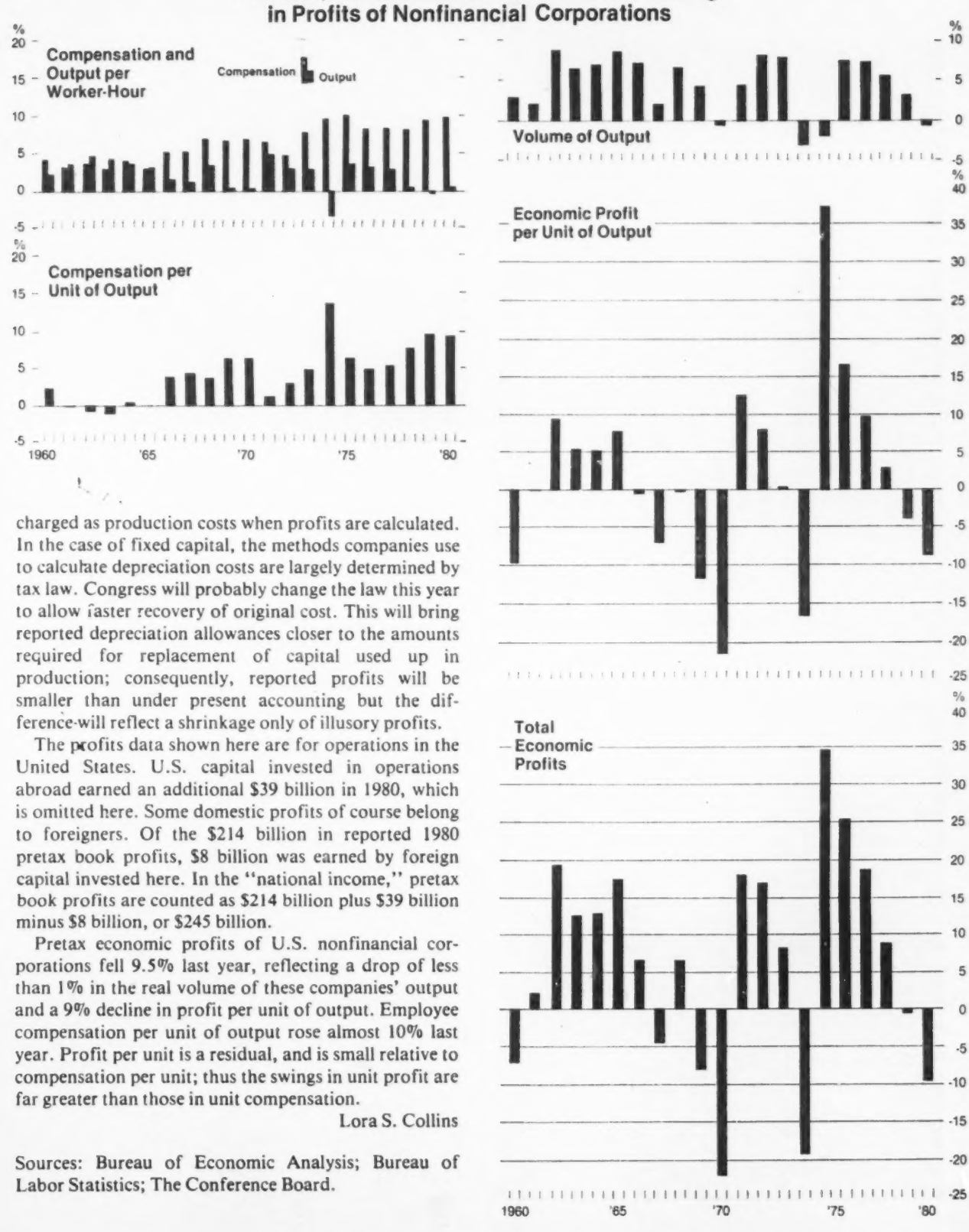






Taxes are calculated on reported book profits. While the average tax on book profits (counting federal, state and local corporate income taxes) was 38% last year, the rate on economic profits was 54% (chart immediately above). The gap between the apparent tax rate and the rate on economic profits reflects serious inflation, for inflation is the key to the understating of economic costs and overstating of reported profits: It is because of inflation that the replacement costs of fixed capital and inventories often exceed the allowances for depreciation and cost of materials that are

Factors that Determine the Year-to-Year Change in Profits of Nonfinancial Corporations



charged as production costs when profits are calculated. In the case of fixed capital, the methods companies use to calculate depreciation costs are largely determined by tax law. Congress will probably change the law this year to allow faster recovery of original cost. This will bring reported depreciation allowances closer to the amounts required for replacement of capital used up in production; consequently, reported profits will be smaller than under present accounting but the difference will reflect a shrinkage only of illusory profits.

The profits data shown here are for operations in the United States. U.S. capital invested in operations abroad earned an additional $39 billion in 1980, which is omitted here. Some domestic profits of course belong to foreigners. Of the $214 billion in reported 1980 pretax book profits, $8 billion was earned by foreign capital invested here. In the "national income," pretax book profits are counted as $214 billion plus $39 billion minus $8 billion, or $245 billion.

Pretax economic profits of U.S. nonfinancial corporations fell 9.5% last year, reflecting a drop of less than 1% in the real volume of these companies' output and a 9% decline in profit per unit of output. Employee compensation per unit of output rose almost 10% last year. Profit per unit is a residual, and is small relative to compensation per unit; thus the swings in unit profit are far greater than those in unit compensation.

Lora S. Collins

Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; The Conference Board.

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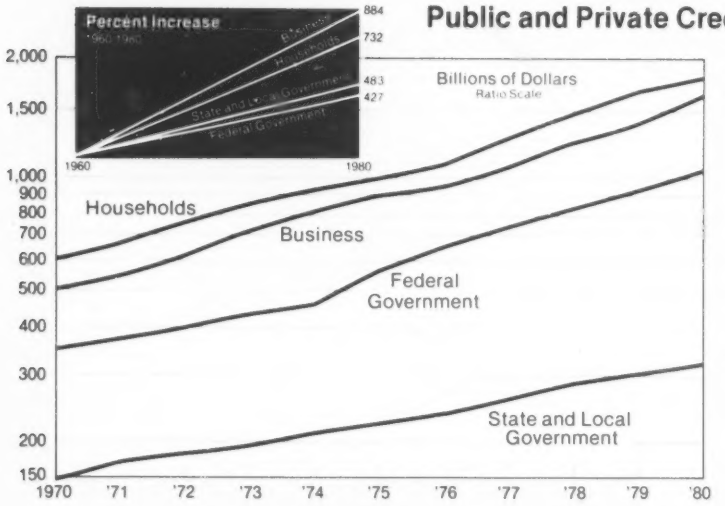
Borrowing and Lending in U.S. Credit Markets

Economic Road Maps

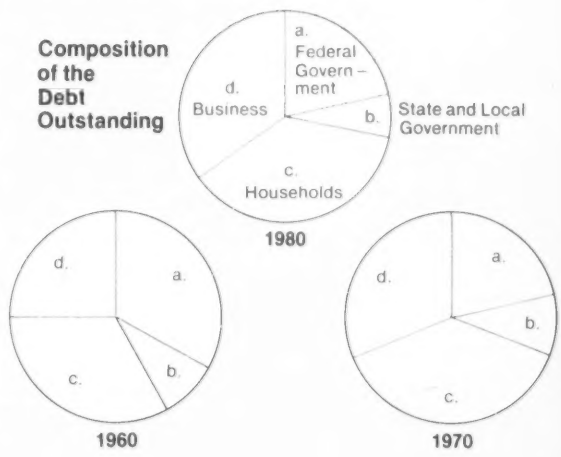
Nos. 1904-1905 June, 1981

The economic function of credit markets is to provide channels through which the excess funds of those who are spending less than their current income can be transferred into the hands of those who want to spend more than their income. In the United States, a highly developed, widely accessible, and well-functioning transmission mechanism assures a steady flow of these funds. The Federal Reserve Board calculates the so-called flow-of-funds accounts that are designed to show explicitly the complex financial interrelationships in the U.S. economy. This system makes it possible to sort out the components of borrowing and lending in U.S. credit markets.

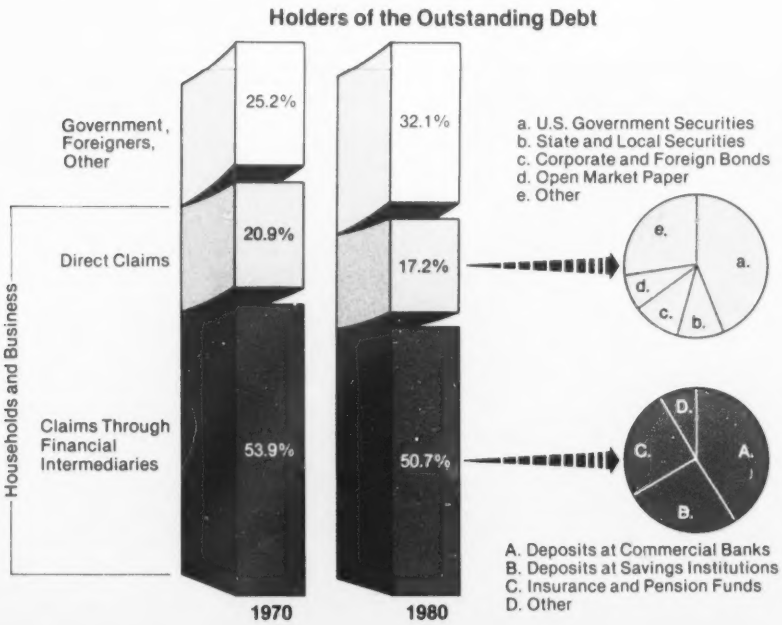
Public and Private Credit-Market Debt Outstanding



Composition of the Debt Outstanding



Holders of the Outstanding Debt

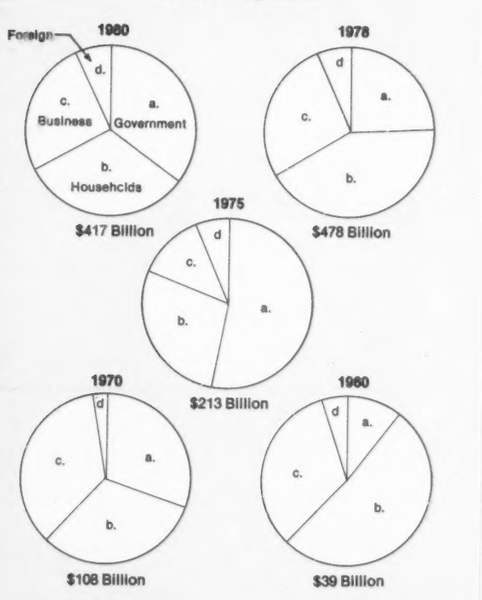


Since 1960, total government and private credit-market debt outstanding in the United States has increased roughly sevenfold. Over this period, households and businesses drew on the credit markets to a much larger extent than federal, state and local governments. This resulted in a significant shift in market shares. The household share of total debt increased from 33% to 37% in the past 20 years, and the business share soared from 25% to 35 percent. On the other hand, the Federal Government's share of outstanding debt fell from 33% of the total in 1960 to 22% in 1970, then changed little in the ensuing ten years. In the 20-year period from 1960 to 1980, state and local government's share of total debt fell by approximately one-fourth.

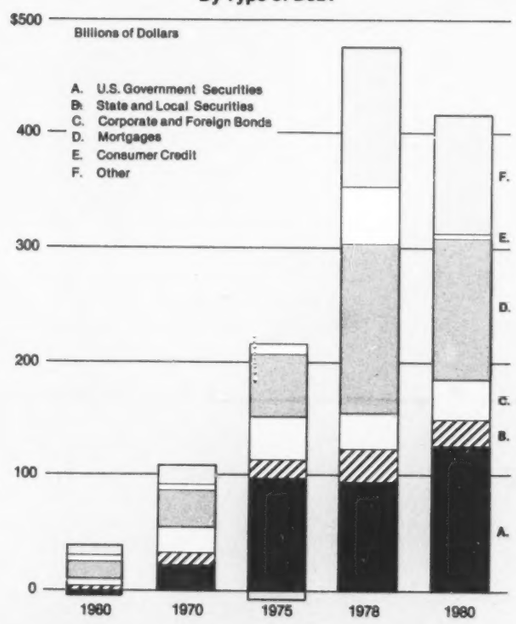
On the lending side of the credit markets, households and private businesses likewise account for the largest share of outstand-

Borrowing in Credit Markets

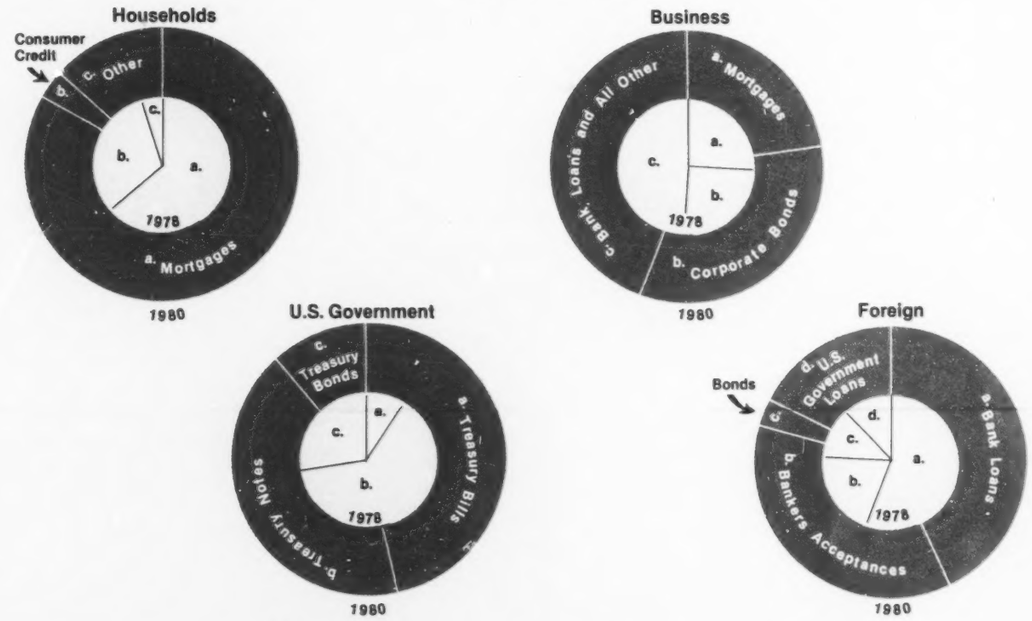
By Borrowing Sector



By Type of Debt



Detail on Borrowing



ings. However, their share has been declining—from three-quarters of the total in 1970 to two-thirds in 1980. These two sectors make most of their investments in credit-market debt through financial intermediaries such as commercial banks and thrift institutions.

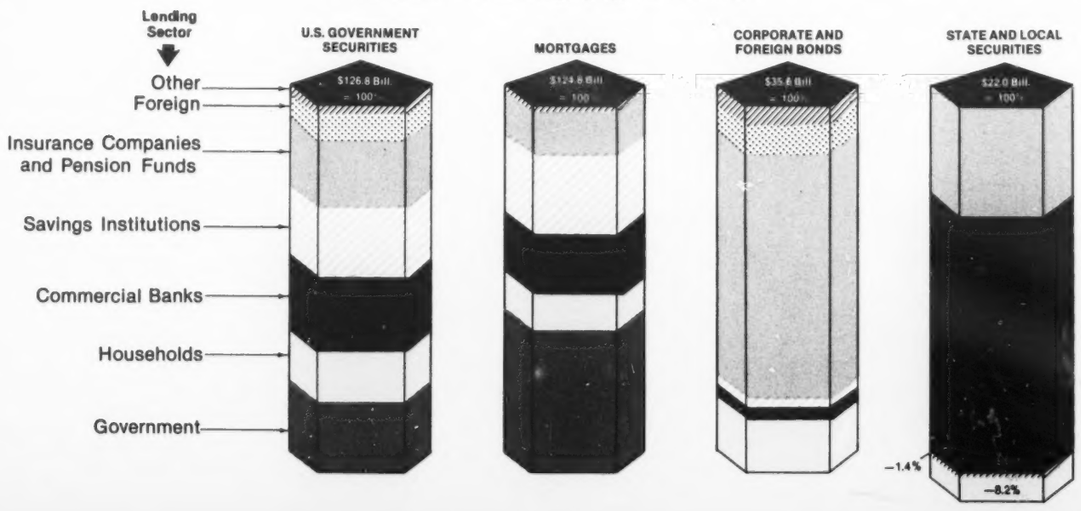
The demands made on credit markets have grown briskly over the years. The total amount raised by all types of borrowers, including financial institutions, reached an all-time peak of $478 billion in the boom year 1978. In recessionary periods, such as 1975 and 1980, governments tend to borrow heavily, while private borrowing diminishes. The use of consumer credit was unusually weak in 1980 because of government actions aimed directly at curbing consumer borrowing. During upswings of the business cycle, the situation is reversed: In 1960 and 1978, for example, household and business borrowing were dominant in credit markets.

The Federal Government mainly issues marketable notes and bonds, although there are also some so-called nonmarketable issues, mainly savings bonds.

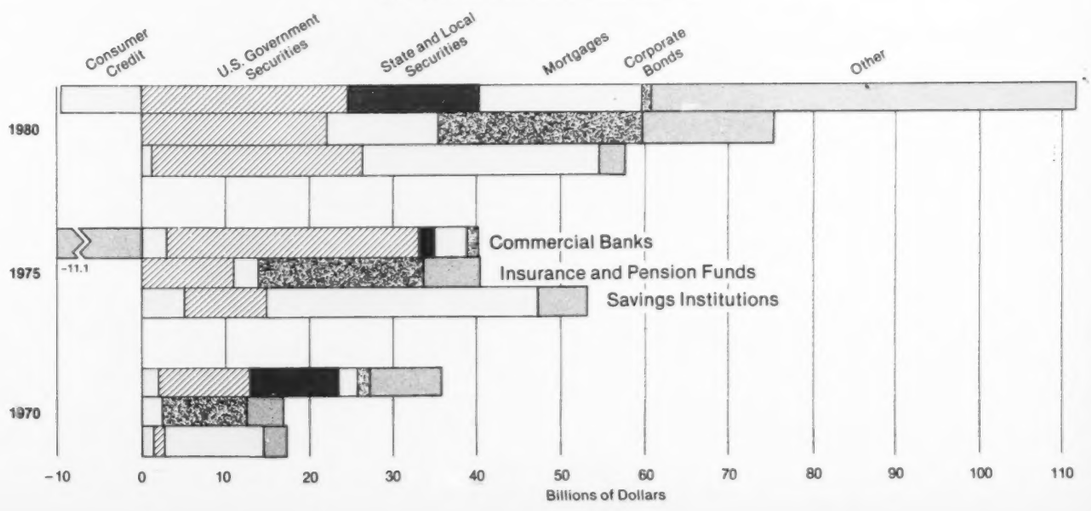
On the lending side of the market, the lending patterns reflect habit and custom as well as operational, legal and by-law constraints affecting different lenders. In 1980, for example, commercial banks and insurance companies together accounted for the entire acquisition of state and local government securities offered, whereas households on a net basis reduced their holdings of these securities by 8 percent. At the same

Lending in Credit Markets

Percent Share of Lending, by Type of Debt: 1980

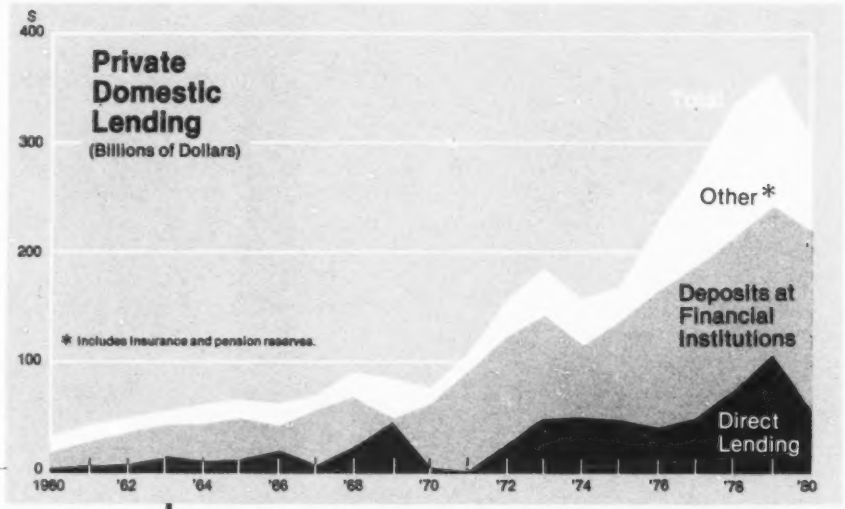


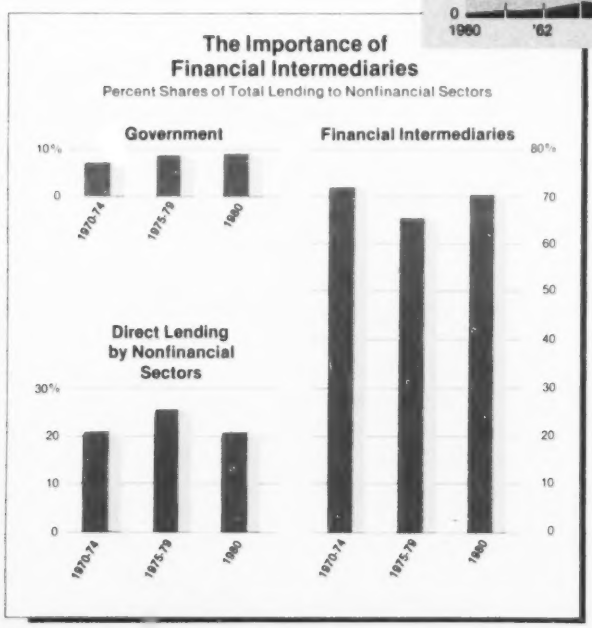
By Major Private Financial Institutions



time, pension funds and insurance companies took two-thirds of the new issues of corporate and foreign bonds, while in the mortgage market governments and government agencies were by far the most important lenders. (The government lending figures include mortgage pools.)

In 1980, credit-market lending by commercial banks totaled $103.5 billion, three times the amount in 1975. Savings institutions accounted for $57.6 billion of credit, and insurance companies and pension funds for $76.4 billion. A steady flow of funds from ultimate lenders to ultimate borrowers is carried by the process of intermediation, that is by flowing through such financial intermediaries as banks, savings institutions, insurance companies, and mutual funds. Intermediaries tend to specialize in offering particular forms of debt to the ultimate lenders, or in extending particular forms of credit to ultimate borrowers. Insurance companies, for instance, raise funds primarily through policy premiums but invest broadly in credit markets, while savings and loan associations borrow through savings accounts and lend through mortgages.



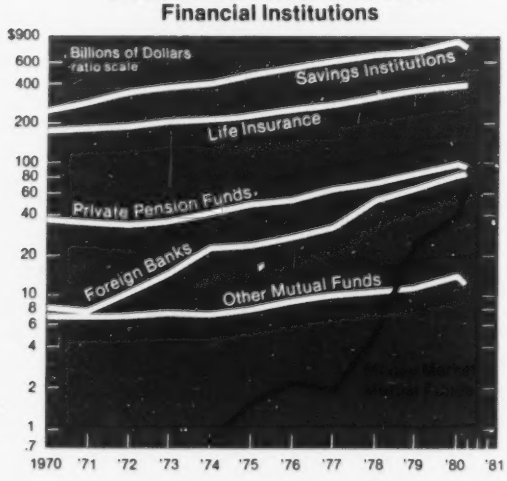


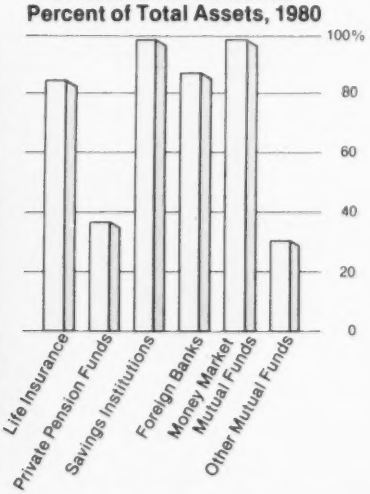
In the U.S. economy, a large part of all credit is channeled through intermediaries. The private sector as borrower relies mainly on financial institutions for mortgages, consumer credit, and business loans. Over the last ten years, financial intermediaries accounted for approximately 70% of total lending to nonfinancial borrowers. As lender, the private sector has also turned increasingly to deposits at intermediaries as an alternative to investing its money through the direct acquisition of securities.

The various financial intermediaries differ a great deal in the structure of their assets. Private pension funds, for instance, invest on average only about one-third of their assets in credit markets, with the bigger part going into corporate equities. On the other hand, savings institutions and money-market mutual funds hold practically nothing but credit-market assets.

Joerg Neef

Sources: U.S. Department of the Treasury; Federal Reserve Board; The Conference Board.





ECONOMIC ROAD MAPS

Eva Culen, Editor — Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

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Unemployment in Industrial Countries

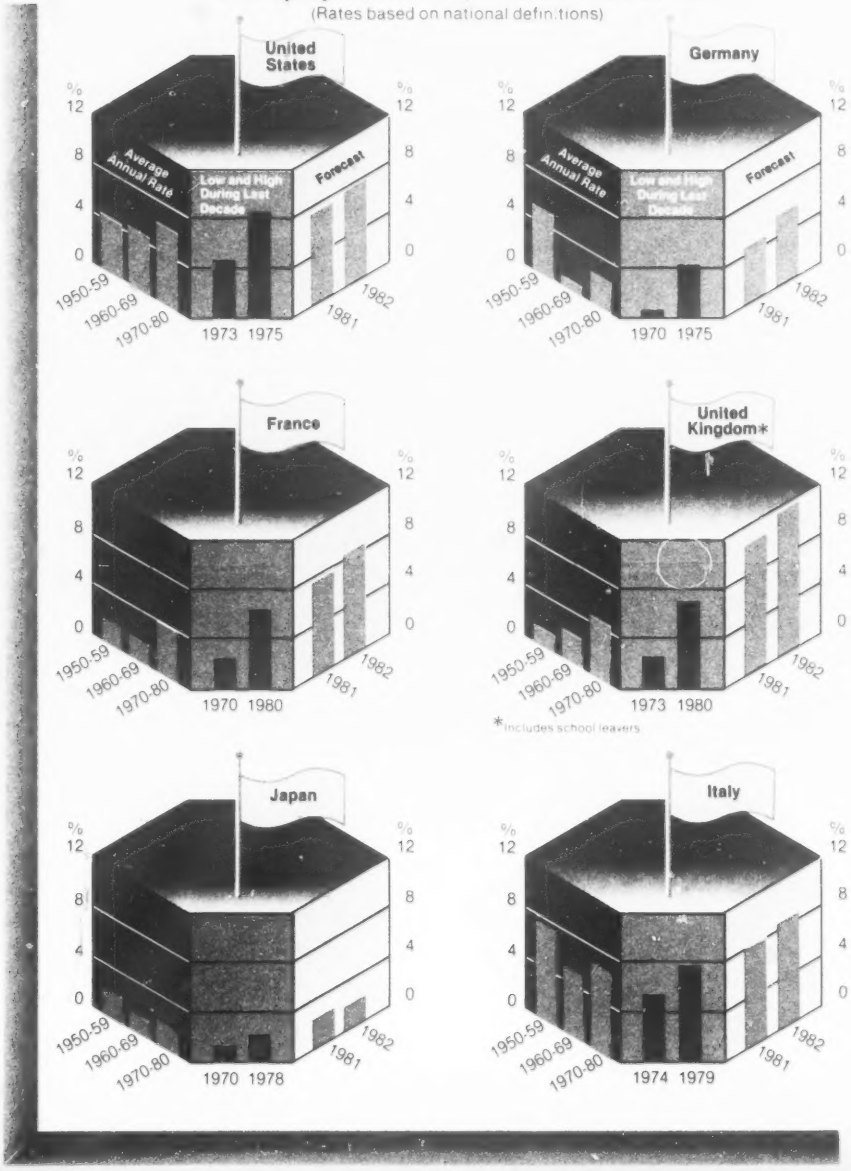
Economic Road Maps

Nos. 1906-1907 July, 1981

A pressing problem confronting the industrialized world today is a surge in unemployment. Since 1974, unemployment rates have been much higher for most western countries than the average rates for earlier years. In recent years, postwar highs in joblessness were reached in France and Great Britain, while German and Japanese rates were the highest since the 1950's. The situation is especially alarming to the governments of European countries, which for years have experienced low levels of unemployment; indeed, at one time they were importing millions of foreign workers in order to sustain their economic booms. The United States has usually lived with higher unemployment rates than those of European countries.

Unemployment - Past, Present and Future

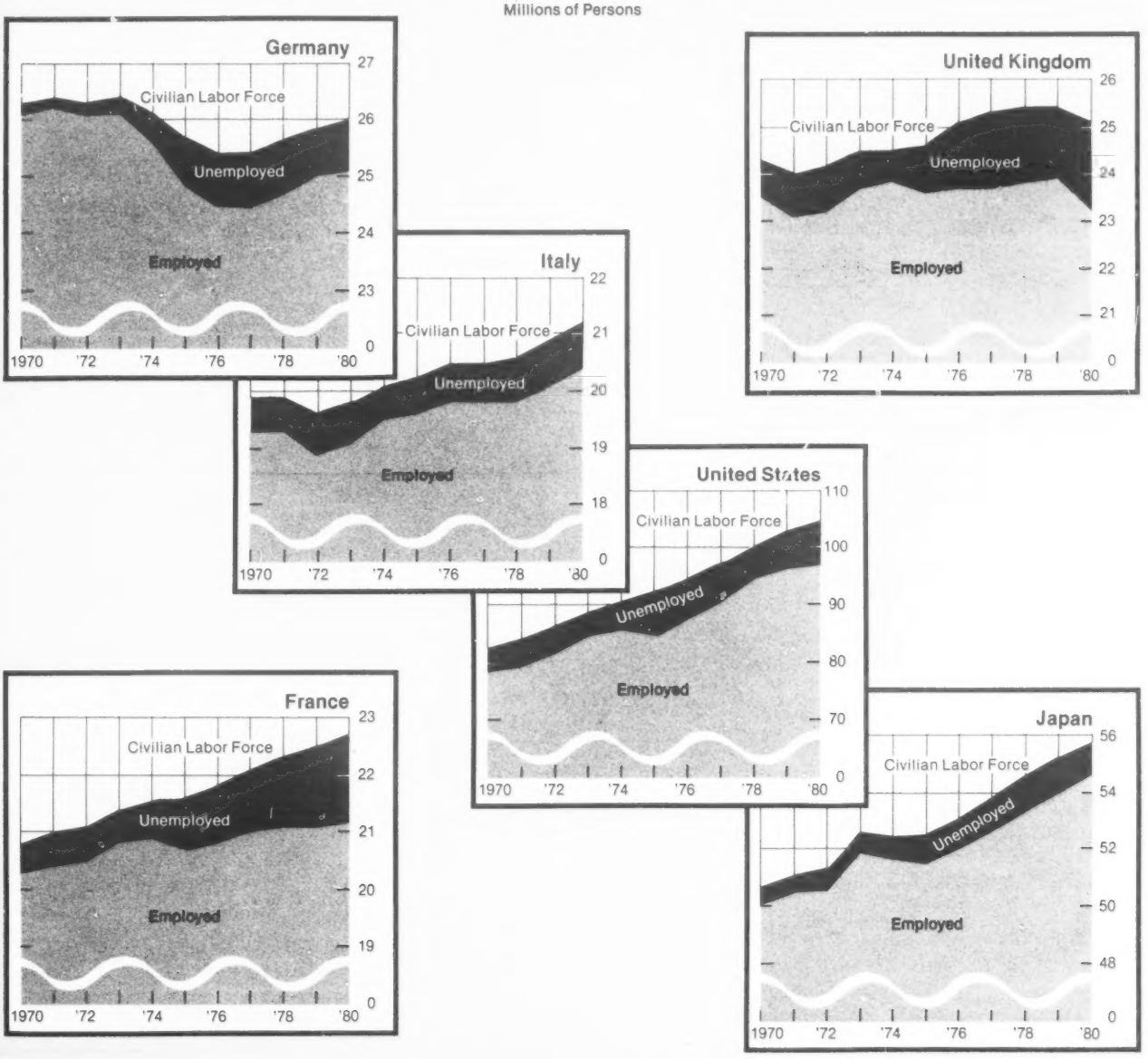
(Rates based on national definitions)

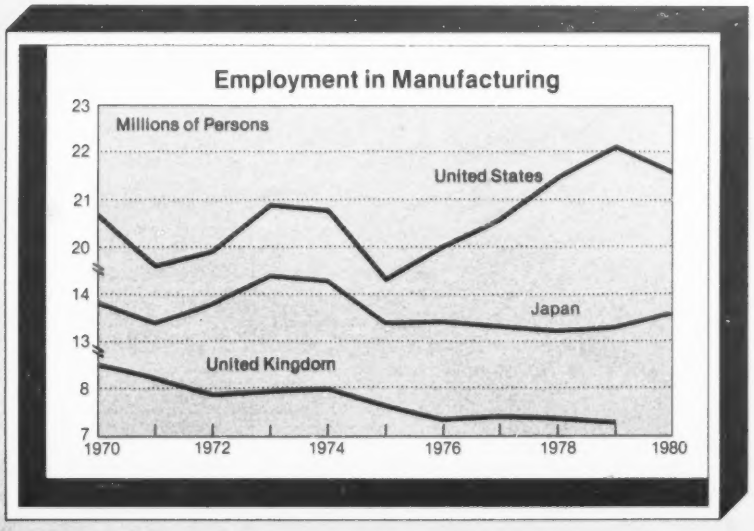


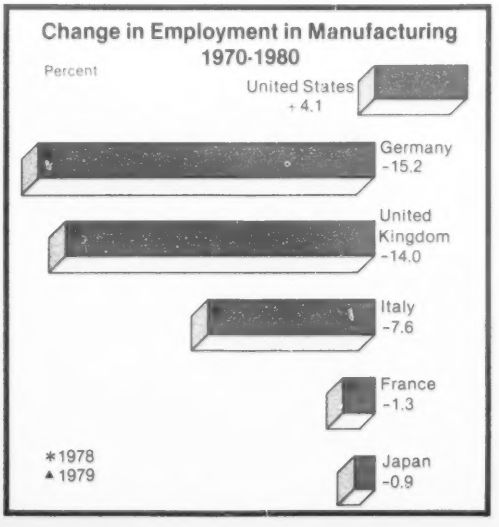
According to the latest projections by the Organization for Economic Cooperation and Development (OECD), the four major European countries will experience a decline of 1% in real GNP this year, followed by only a slight growth in 1982. For the United States, the OECD projections put real growth at 2½% this year and only 1% in 1982. (Many U.S. forecasters expect stronger, not weaker, overall growth in 1982, but the OECD projections are being used in this Road Map.) Japan, with a growth rate of 4% in 1982, will be the fastest growing of the major economies, although its growth will be well below the rates of previous years. Given this growth outlook, chances for improvement in the industrialized countries' employment situation are rather dim. The OECD expects unemployment to rise further this year and into the second half of next year, with women and young workers being the hardest hit. The number of unemployed in the Economic Community's member countries is about 8½ million, and it is expected to be near 10 million by this Winter according to the EEC Commissioner for Employment. U.S. unemployment is also expected to rise; only in Japan will it decline marginally. With the fight against inflation still preeminently on the minds of most governments, only the newly installed socialist government in France has put forth a pro-

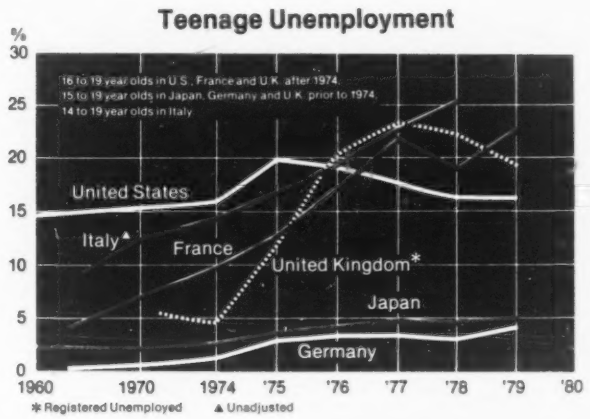
Unemployment Trends in Selected Countries

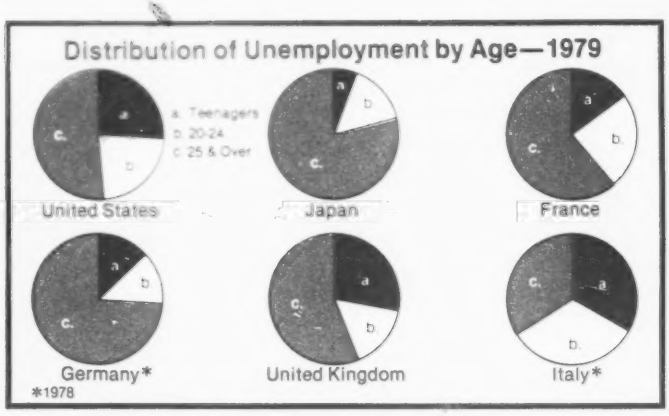
Millions of Persons





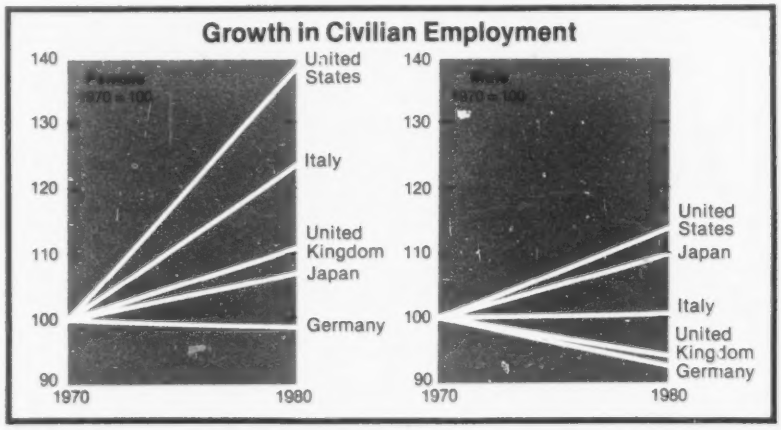


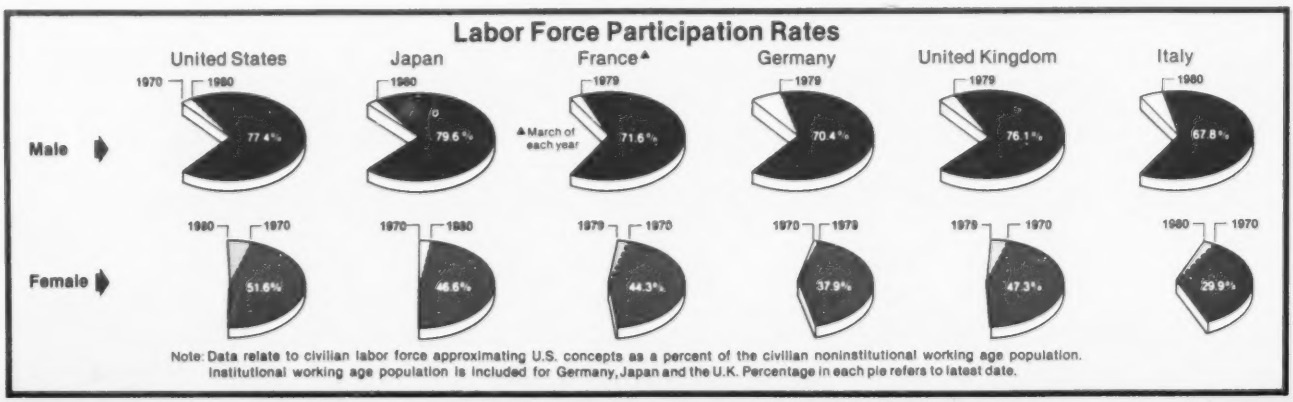

Teenage Unemployment
%
16 to 19 year olds in U.S., France and U.K. after 1974.
15 to 19 year olds in Japan, Germany and U.K. prior to 1974.
14 to 19 year olds in Italy.
United States
Italy▲
France
United Kingdom*
Japan
Germany
1960 1970 1974 '75 '76 '77 '78 '79 '80
* Registered Unemployed ▲ Unadjusted

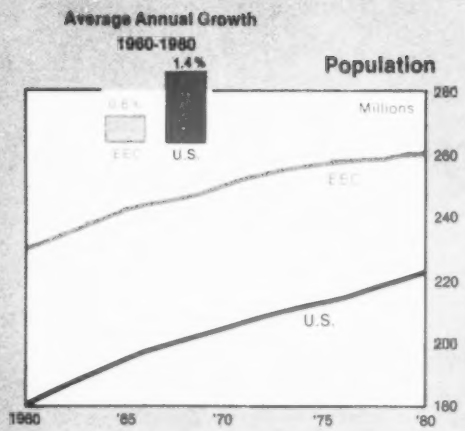


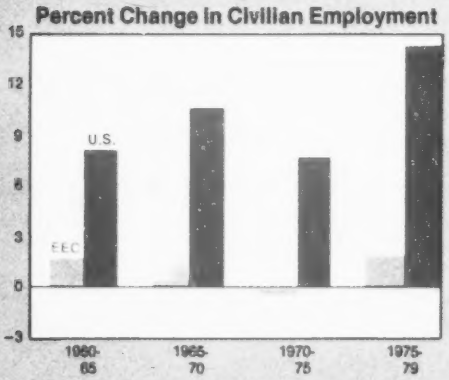
gram for creating new jobs. The British proposal to guarantee jobs for young school leavers—presented in the aftermath of the recent riots—seems to have been shelved, at least for the time being.

Labor statistics are among the most difficult economic indicators to compare internationally, and unemployment comparisons are the most difficult of all. The difficulties arise from differences in the systems for collecting data, as well as from differences in concepts or definitions. Some countries (France, Germany, the United Kingdom) collect their data from unemployment offices, which means that only those unemployed who bother to register are included. Others (United States, Japan, Italy) conduct sample surveys of the population. But even when similar methods are used, there can be substantial differences in definitions of labor force and employment—affecting, for instance, the treatment of military personnel, students, unpaid family workers, discouraged workers, and the age limits of the labor force. In the United States, for example, active job seeking within the past four weeks is required in order to be counted as unemployed, while in several foreign countries the survey week itself is the reference period for be-









ing counted as unemployed. To add further to the confusion, data are adjusted to different standards by various organizations: The U.K. unemployment rate in 1980 was calculated at 7% by the British government; the OECD listed it at 7.4%; the EEC calculations put it at 6.9%; while the U.S. Bureau of Labor Statistics adjustment to U.S. concepts resulted in a rate of 7.5 percent.

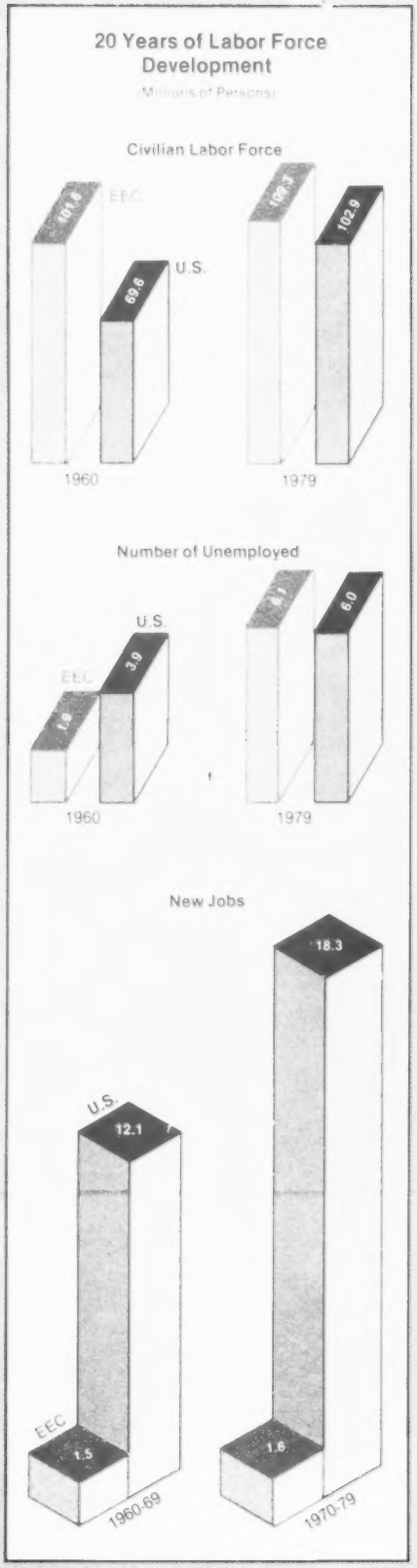
There are a variety of causes for the growth of unemployment in recent years. Social and demographic forces that brought a surge of youths and women into the job market were a factor. Also, there has been some migration of jobs over time from the developed to the developing countries. A number of countries have also been hit by structural unemployment, as workers were laid off in declining industries such as steel, shipbuilding and textiles. Developing new employment for such workers is in many cases, a time consuming process, requiring retraining and investment in growth industries.

In 1980, civilian labor force participation rates were highest in the United States (63.8%) and lowest in Italy (48%). A downward trend in participation rates for men has occurred in all countries, while the rate for women has fallen only in Germany and Japan.

Eva Culen

Sources: Organization for Economic Cooperation and Development; European Communities (EEC); U.S. Department of Labor; The Conference Board.

Note: Information on page 1 of the Road Map was compiled from OECD statistics based on the definitions used by each country. Figures for pages 2 and 3 (with the exception of the table on unemployment by sex which comes from OECD), present information adjusted by the U.S. Department of Labor to U.S. concepts. Page 4 is based on OECD statistics adjusted to international standards. The U.S. Department of Labor and the EEC Statistical Office compile the monthly unemployment rates.



Note: All EEC totals exclude Greece.

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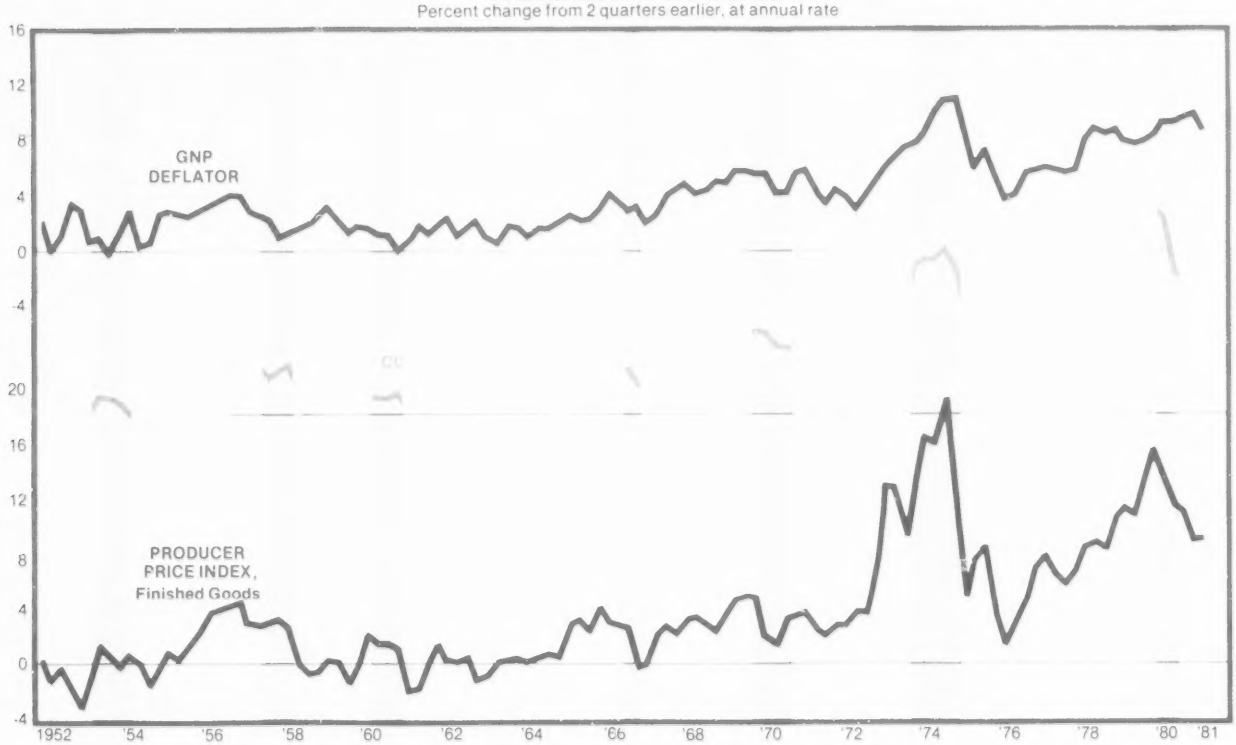
Inflation

Economic Road Maps
Nos. 1908-1909 August 1981

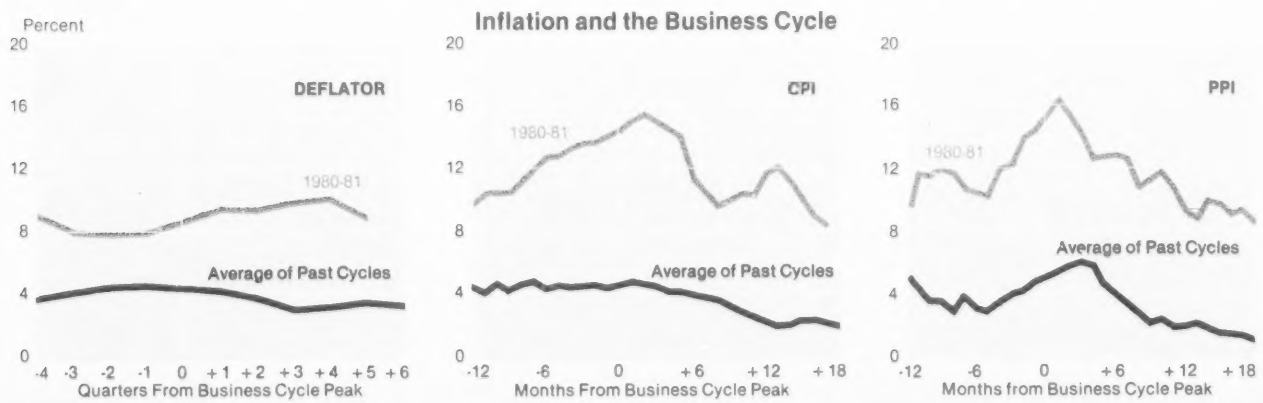
The phenomenon of inflation—a broad, general increase in prices—has become painfully familiar. Although most people probably have the consumer price index (CPI) in mind when they think of inflation, there are at least two other measures of broad price change: the producer price index (PPI) for finished goods, and the GNP deflator, which reflects the prices of all the goods and services produced by the U.S. economy. Despite their differences in coverage and weighting, the three indexes tell essentially the same story of an accelerating inflation trend over the past 15 years or so. There have been dramatic increases in energy and food prices in recent years, but inflation is a much broader phenomenon. Page 2 shows that the CPI and PPI excluding energy and food have generally risen about as fast as the overall indexes.

Three Measures of Inflation

Percent change from 2 quarters earlier, at annual rate

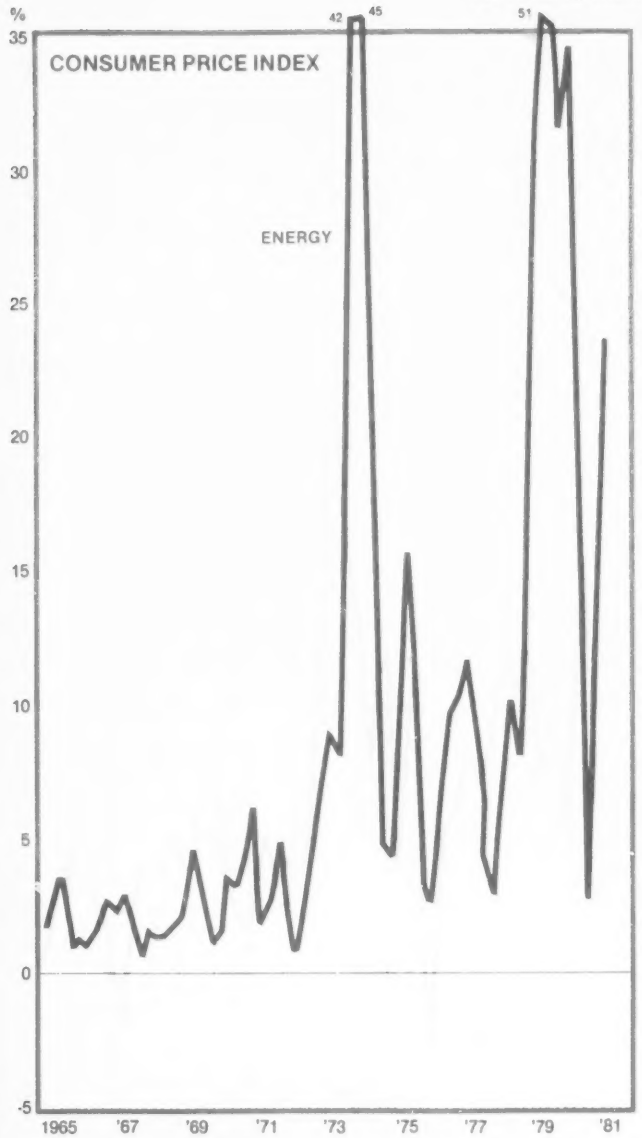


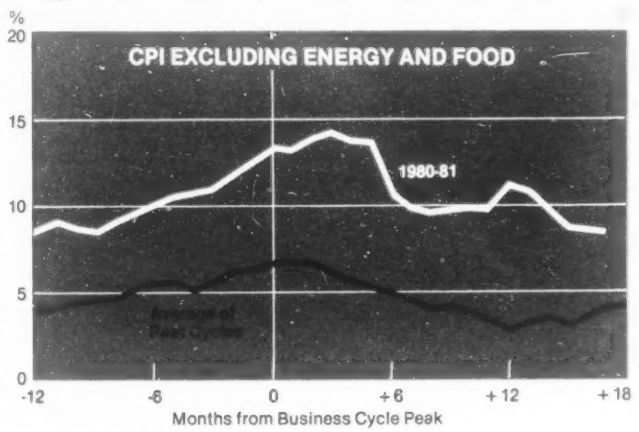
Inflation and the Business Cycle

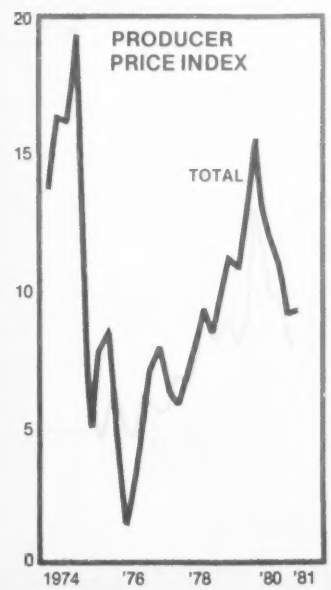


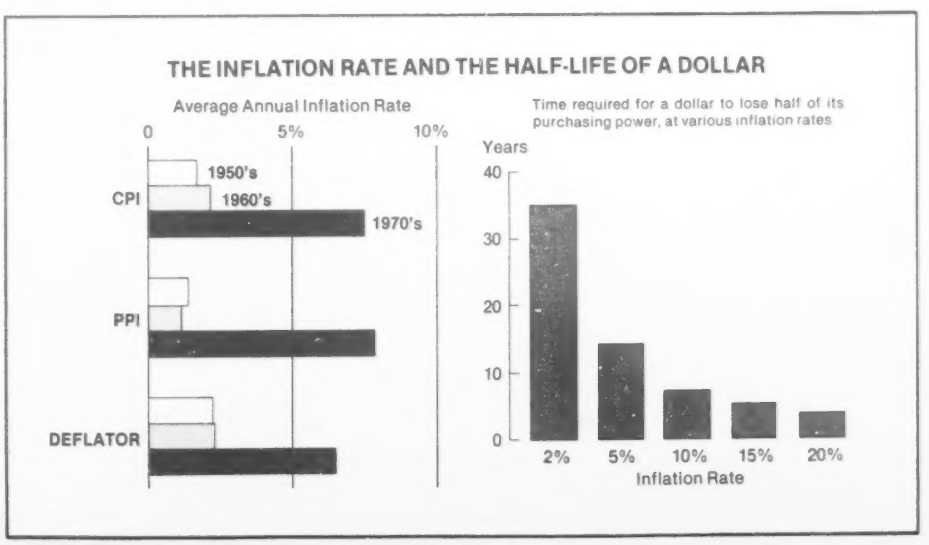
Food and Energy in the Price Indexes

Percent change from 2 quarters earlier, at annual rate



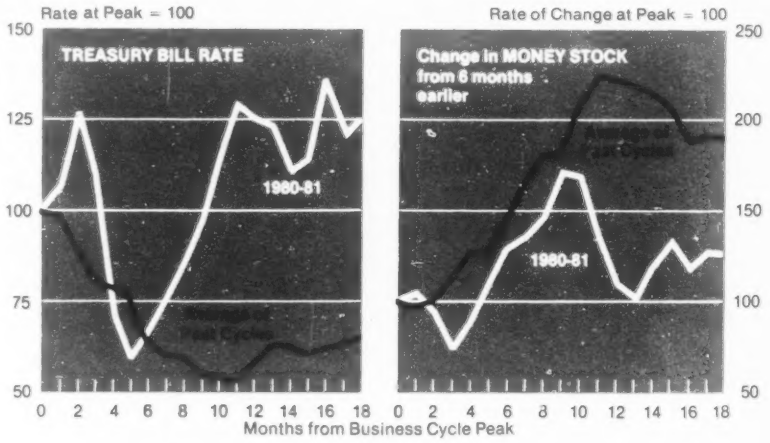




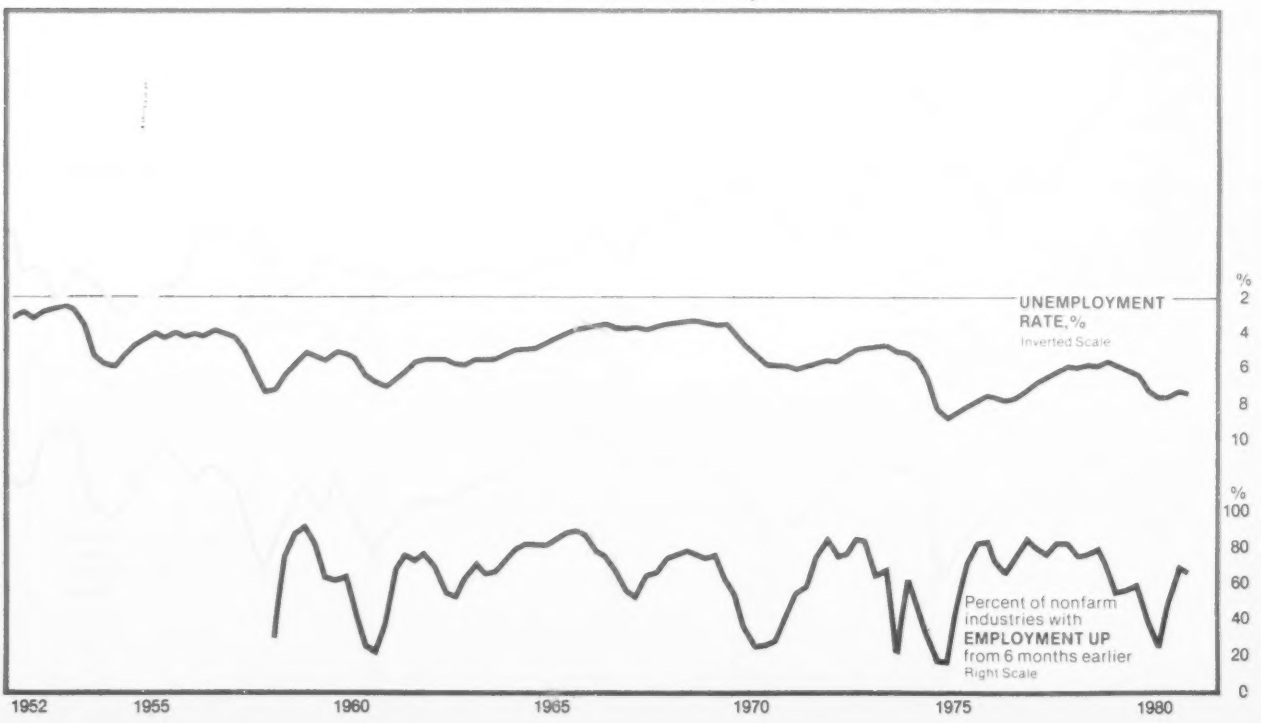


Monetary Policy

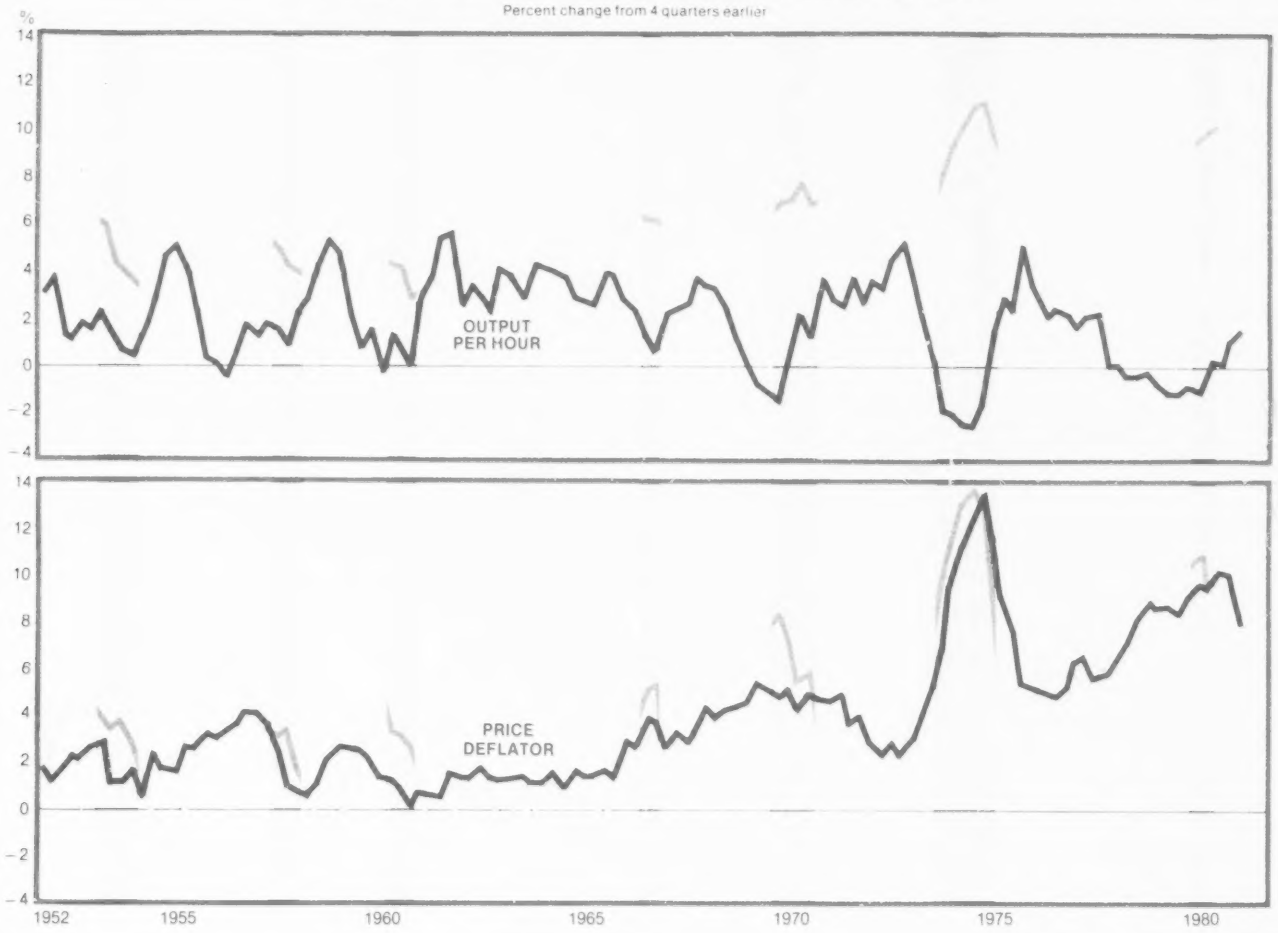
The record shows that we have had very little in the way of price decelerations except in connection with economic slumps. (The shaded recessions on the charts include the 1966-1967 quasi-recession, but it is not included in the averages of past cycles shown on the small charts.) A typical reaction to slumps has been a speed-up in the growth of money and credit, that is, of total dollar demand. In 1980-1981, however, the Federal Reserve seems determined not to pump out enough dollars to support both rising prices and rising real activity. Most economists

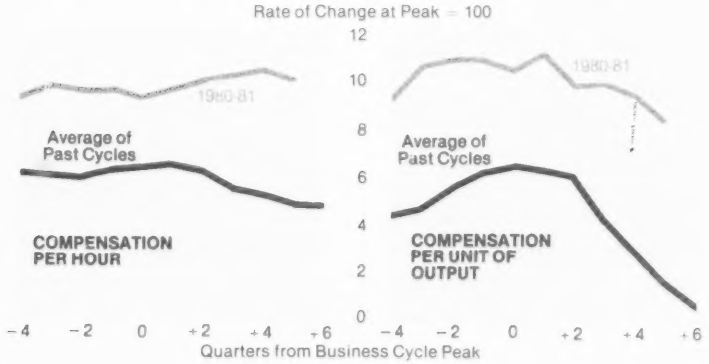


Inflation and Economic Activity



Labor Costs and Inflation in Nonfarm Business





agree that such a policy will ultimately stem inflation by starving it; the difficulties lie in the fact that most economists also believe that what is dampened in the first instance is real activity, not inflation.

Reports have shown inflation slowing down this year. A good deal of this slowing reflects essentially transitory factors such as the oil "glut" and unexpectedly flat food prices. Even so, the slowdown could temper attitudes and expectations throughout the economy, and that could affect the ongoing trend rate of inflation. The key to the basic trend of prices is the trend of labor cost, because that comprises the bulk of the total cost of the "factors of production" that produce the national output. Over time, leaving out short-term wiggles, if compensation trends up faster than output, the price level will rise. The adjacent charts show that since 1975, compensation per hour has been rising at 8% to 10% per year and accelerating, while the growth of output per hour has decelerated. The difference between those trends shows up as the rise in compensation per unit of output, which largely determines the rise in the price level.

Lora S. Collins

Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve Board; The Conference Board.

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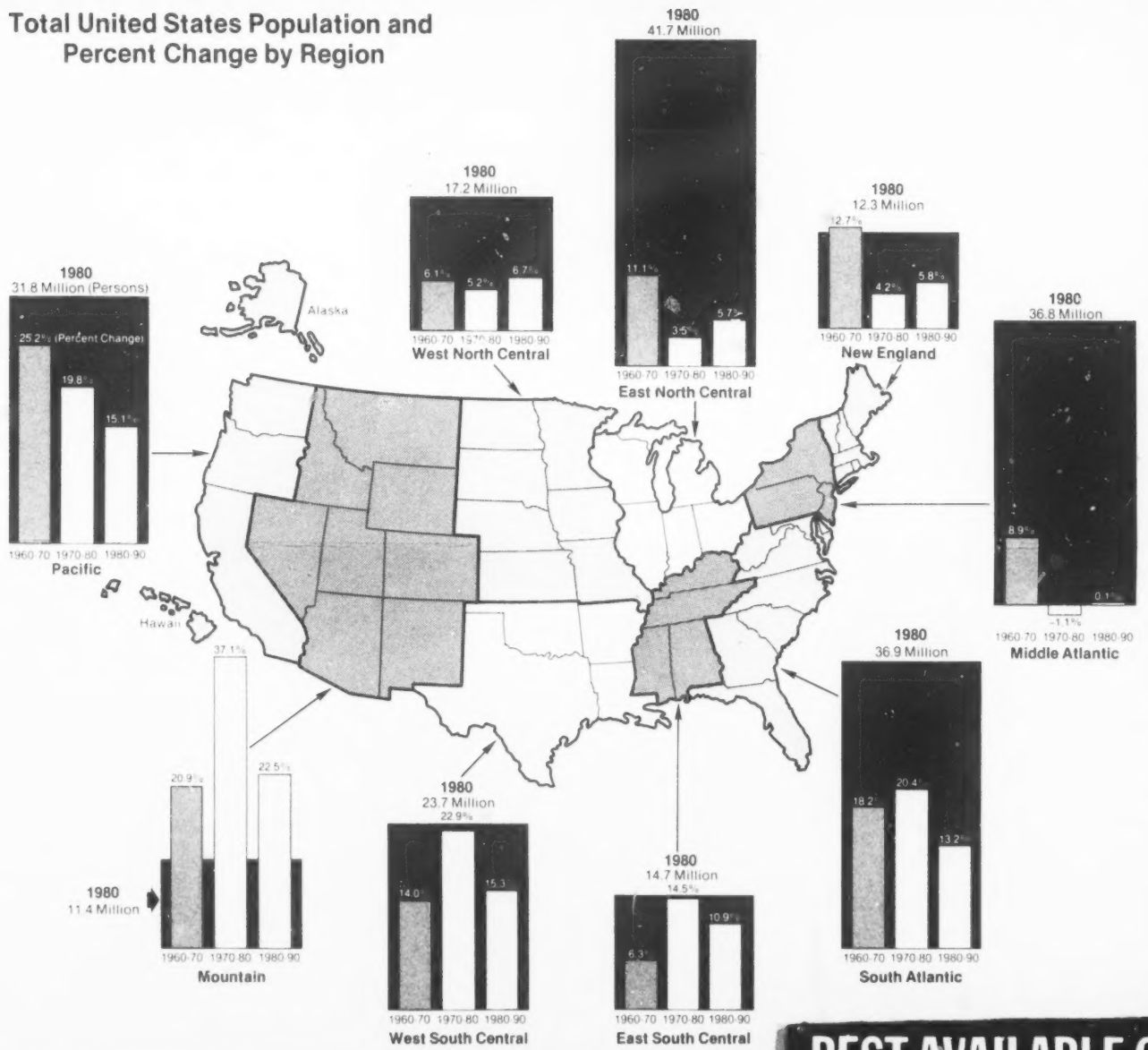
Population and Labor Force Trends

Economic Road Maps

Nos. 1910-1911 September, 1981

In economic terms, the "population problem" can be considered as the pressure of people on resources. Another way to think about it is as the pressure of people on people. The rate at which the population grows, the rate at which population density changes, and the differences in these factors among geographic regions all affect social relationships. The relationship between population and labor force is expressed by the labor force participation rate—that is, the proportion of the working-age population working or actively looking for work. In the last 20 years, the overall participation rate has risen, a trend that will continue in the 1980's if the Bureau of Labor Statistics' assumptions are correct.

Total United States Population and Percent Change by Region



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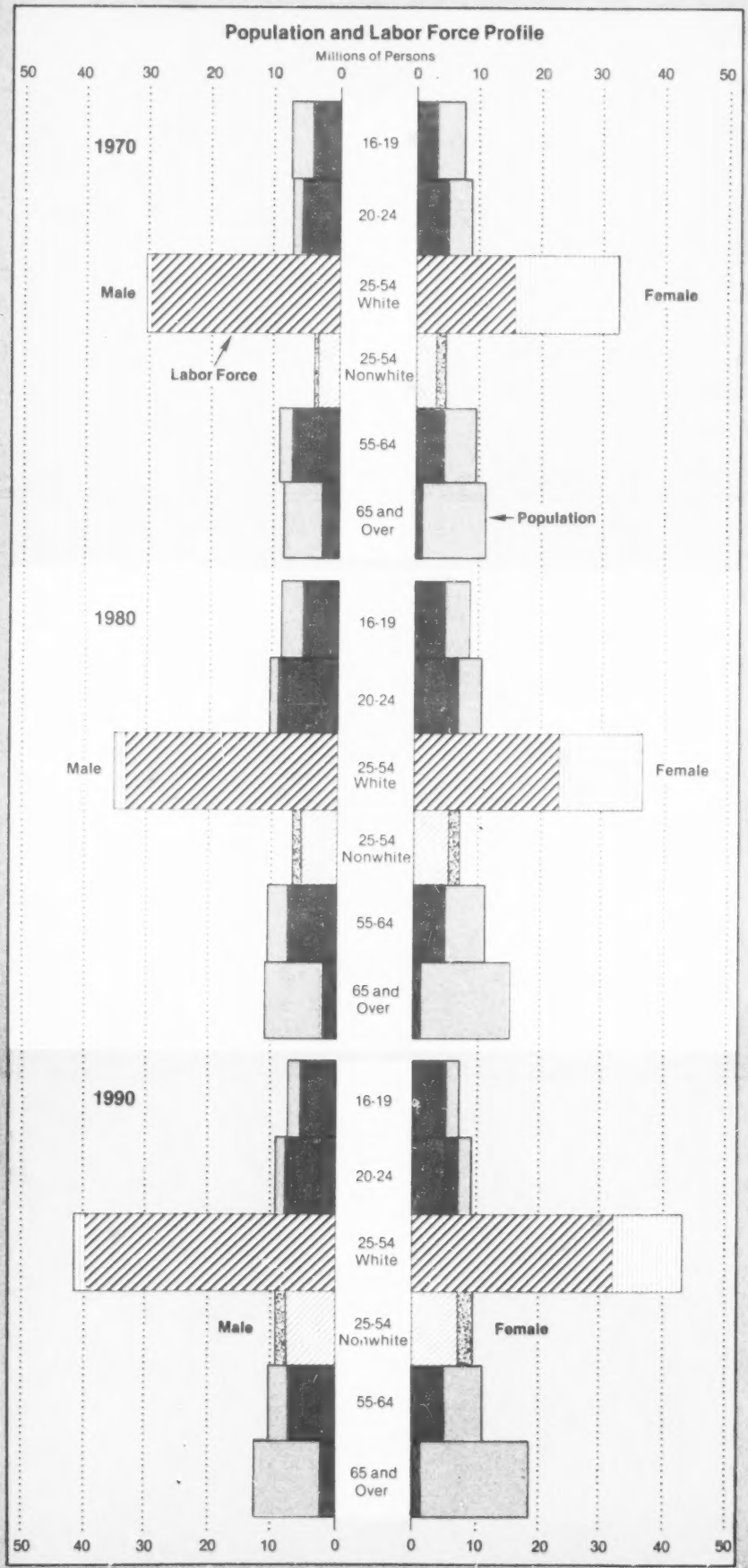


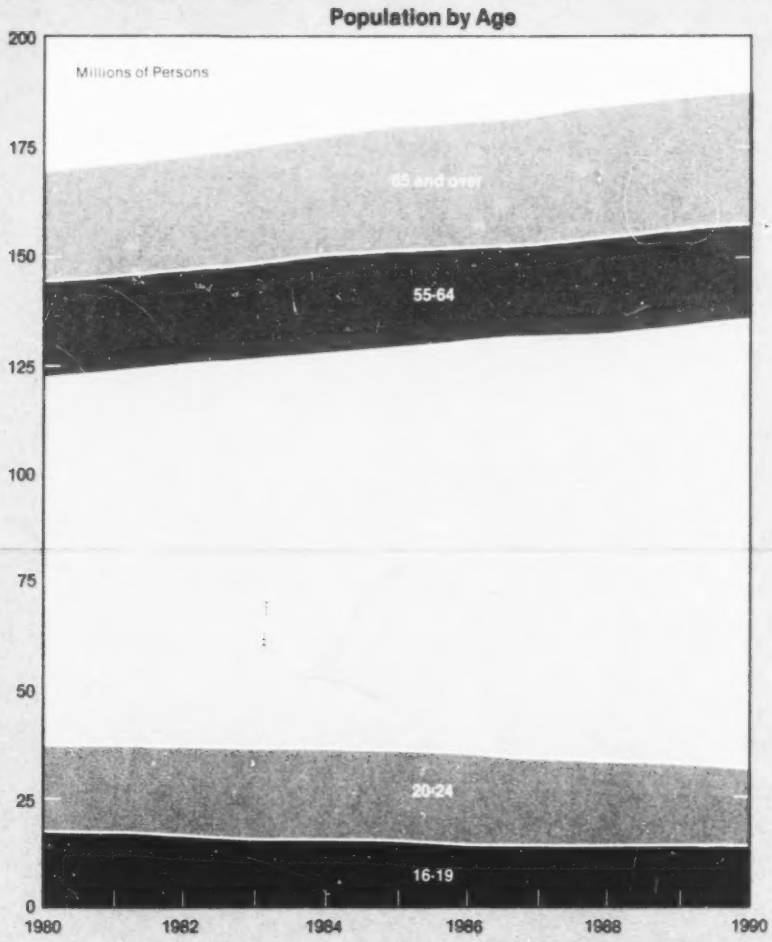
There have been four major changes in the pattern of population growth in the 20th century. Waves of new immigrants, largely young adults, swelled the growth rate in the first two decades. The subsequent decline in immigration, deaths in World War I, and the depression substantially lowered the growth rate in the 1920's and 1930's. Following World War II, the birth rate increased enormously, raising the population growth rate in the first two postwar decades. Since then, the birth rate has been significantly lower, reducing population growth rate once again.

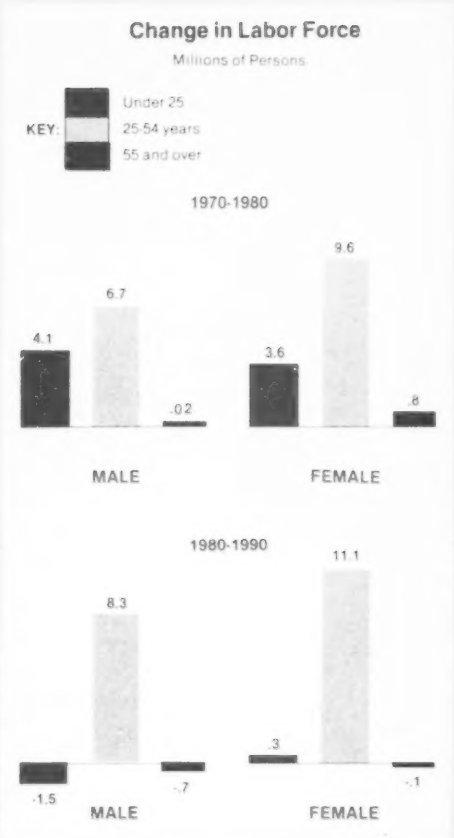
The shifts in the population growth rate are reflected in the quite uneven age distribution of Americans. Those born roughly between 1920 and 1945 were between 35 and 60 years old in 1980. As a result of a reduced birth rate during 1920-1945, the rate of increase in the number of men and women in this group has been lower than that for the immediately older group (those born before 1920, who were over 60 in 1980). This relative scarcity of potential workers has been a factor giving impetus both to automation and to higher labor force participation.

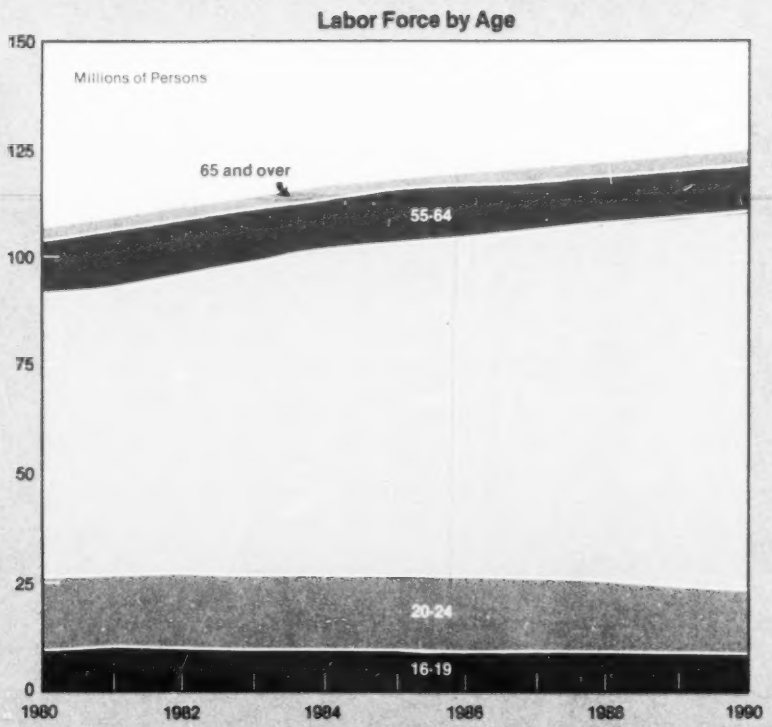
Those born roughly between 1945 and 1965 were between 15 and 35 in 1980. This is the so-called "baby-boom generation." The rate of increase in the number of people in this group has been higher than that of the older group, but the labor force participation of young people continued to rise. These two factors generated an enormous increase in the demand for jobs. The birth rate began to decline again in the mid-1960's, and this will moderate the growth of the labor force in the 1980's. However, the expectation is that labor force participation will continue to increase in the 1980's, and the problem of generating sufficient economic growth to absorb the labor force entrants (the pressure of people on people) will persist in this decade.

Although the Bureau of Labor Statistics defines the working-age population as everyone aged 16 or older, not all 16 year-olds immediately enter the labor force, and their labor force par-

Population and Labor Force

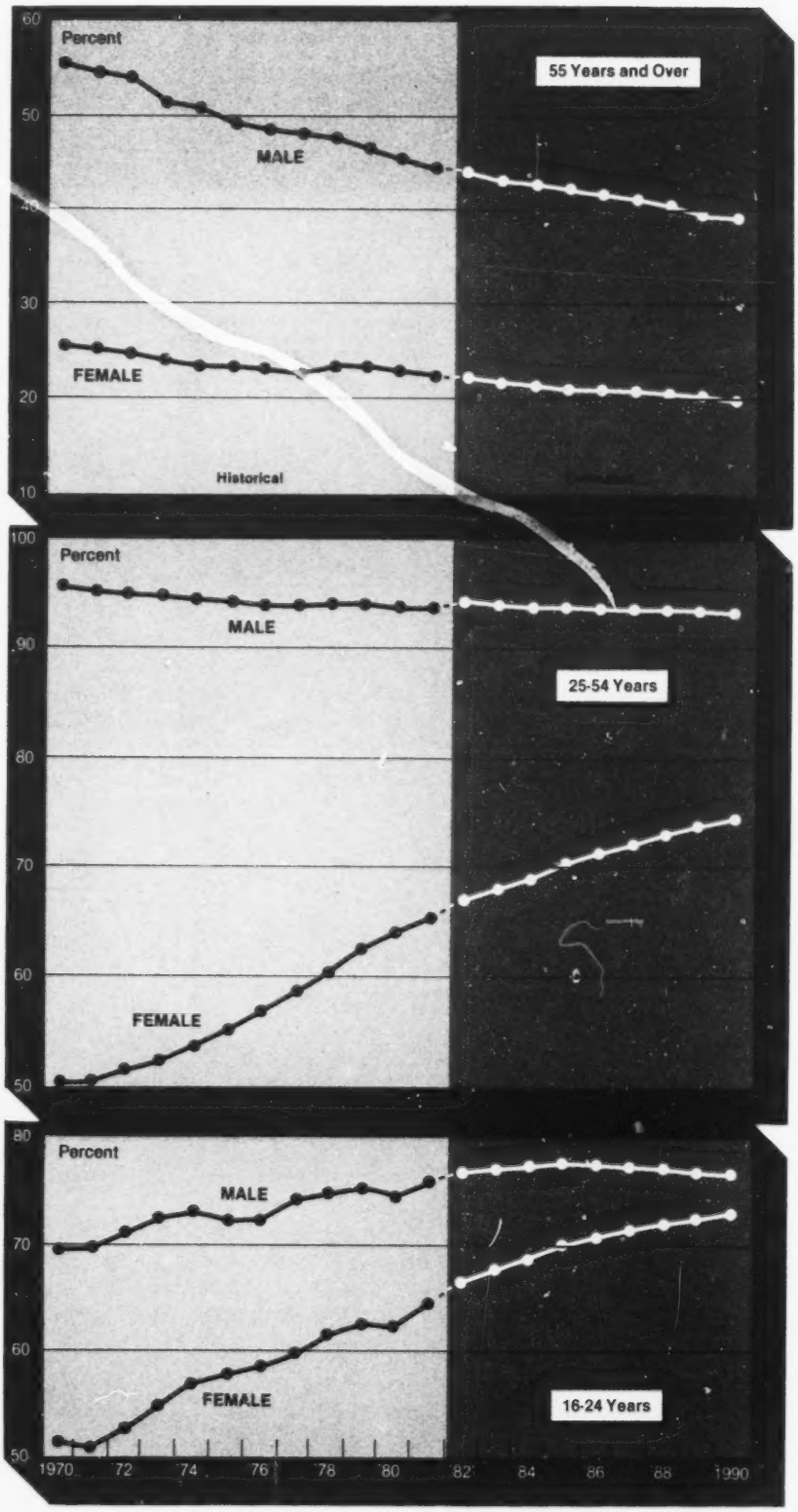






Labor Force Participation Rates

By Age and Sex



ticipation rate is substantially lower than that for adults. Another well-established pattern is that the proportion of men in the labor force is higher than that of women. But both patterns have been growing less pronounced, and this will continue in the 1980's. In 1970, 69% of men aged 16 to 24 were working or looking for work. A decade later, that rate had climbed to 74%, and it is expected to rise to 77% by 1990. Conversely, the rate for men aged 25 to 54, was 96% in 1970, 94% in 1980, and is projected to be about 94% in 1990.

For women aged 16 to 24, the participation rate was 51% in 1970, 62% in 1980, and is projected to be about 73% by 1990. Thus, the proportion of young women engaged in economic activity has been rising sharply, and it is anticipated that it will be almost equal to that of men of the same age by the end of the decade. The participation rate for women aged 25 to 54 was 50% in 1970, rose to 64% in 1980, and is projected to be about 74% by 1990—a sharp contrast to the essentially flat participation rate of men in the same age group. On the other hand, the participation rate of women in the 25 to 54 group will remain significantly below that of men of the same age through the end of the decade, unlike the situation in the younger group where male and female participation rates are converging.

The decline in the birth rate that began in the mid-1960's implies not only that the population growth rate has slowed, but also that the population and labor force will become progressively older in the 1980's. The Bureau of Labor Statistics projections imply that the decade will see the U.S. labor force expanding faster than the population. Some World Bank projections suggest that this will probably be the course in other major developed economies, not only through the end of the decade but, perhaps, through the end of the century.

Ken Goldstein

Sources: World Bank; Bureau of Census; Bureau of Labor Statistics; The Conference Board.

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